



NCUA

**CHARTERING AND
FIELD OF MEMBERSHIP
MANUAL**

NATIONAL CREDIT UNION ADMINISTRATION

NCUA
CHARTERING
AND
FIELD OF MEMBERSHIP
MANUAL 7/94

National Credit Union Administration
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NCUA-FM - PREFACE 7/94

This manual sets forth the National Credit Union Administration's (NCUA) current policies and procedures for granting and permitting change to a federal credit union charter. Chapters 1 through 3, and Appendices A through F were adopted by the National Credit Union Administration Board on May 12, 1994, as Interpretive Ruling and Policy Statement (IRPS) 94-1. This version of the manual replaces the December 1989 version, which was based on the NCUA Board's prior policy statement on chartering and field of membership, IRPS 89-1. We hope it will be of help whether you are learning about credit unions for the first time or have long been part of the credit union community.

In setting the policies and procedures contained in this manual, we have been guided by three goals:

- To provide a flexible regulatory environment to facilitate credit union development consistent with the Federal Credit Union Act and ensuring credit union safety and soundness;
- To implement internal policies and procedures that will enable NCUA staff to respond quickly, flexibly, effectively and consistently to chartering and charter amendment requests; and
- To make quality credit union service available to all eligible groups who wish to have it.

The manual has an introductory section, three chapters and six appendices. The Introduction, designed primarily for those who are unfamiliar with credit unions, outlines the history of these unique financial cooperatives and the development of the state and federal systems that charter, regulate and supervise them, and that insure their members' "shares," or deposits.

Chapter 1, "Federal Credit Union Chartering," sets forth what characteristics a group must have and what the group must do to obtain a federal credit union charter. In the course of taking a group step-by-step through the chartering process, this chapter defines the different kinds of credit unions Congress has provided for and how they fit together to form a single community.

Chapter 2, "Amendments to the Field of Membership," describes how an existing federal credit union may make what has become the most common change in its charter - an amendment to Section 5, which specifies the field of membership it is authorized to serve. The chapter discusses each of the three main ways such a change occurs: (1) addition of a group which is seeking credit union service; (2) merger of existing credit unions; and (3) acquisition of certain assets, liabilities and shares of a liquidated credit union.

Chapter 3, "Charter Conversions," shows how a credit union can convert to and from a federal charter. There is a dual system of chartering in the United States; nearly all the states offer a state-regulated alternative to a federal credit union charter. NCUA firmly supports this dual system, and strives to make conversions as simple as possible, consistent with the Federal Credit Union Act.

The manual also includes six appendices. Appendix A is a glossary of key terms used in this manual. Appendix B is a sample Letter of Understanding and Agreement entered into with a newly chartered credit union. Appendix C is a list of NCUA regional offices to which inquiries may be directed. Appendix D comprises the forms referred to in the manual -- the forms for a new federal charter application; for federal-to-state and state-to-federal charter conversions; and for requesting a field of membership or other charter amendment. Appendix E is a discussion of controls which should be placed on agents outside the credit union's organization which solicit field of membership amendments. Appendix F is a list of some of the main credit union trade organizations which are available to assist groups in obtaining a federal credit union charter and to help existing federal credit unions in expanding their fields of membership. This list is not exhaustive; it is intended only as a starting point.

NORMAN E. D'AMOURS Chairman, NCUA Board

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YOLANDA TOWNSEND WHEAT Board Member

NCUA-FM - INTRODUCTION 7/94

A credit union is a member-owned, member-controlled, not-for-profit cooperative financial institution formed to permit groups of persons to save, borrow, and obtain related financial services and to participate in its management. Member ownership and control are what make credit unions unique.

The cooperative movement in financial institutions was born in Europe during the mid-1800s. The first credit union was organized in Belgium in 1848 during a period of severe economic depression. At the same time, cooperative credit societies were being developed in Germany to provide a self-help vehicle for the shopkeepers, urban workers, and farmers who had been forced to pay usurious rates charged by the area money lenders. In all cases, these cooperative institutions were democratically controlled, were open to voluntary membership, and had all capital coming from the savings of the participants.

By 1900, the financial cooperative idea had spread to Canada, and in 1909, the first credit union was organized in the United States. By 1935, 38 states and the District of Columbia had laws permitting the establishment of credit unions, and over 3,000 were in existence.

In 1934, Congress passed the Federal Credit Union Act "to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means, credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." That Act set the basic structure which governs federal credit unions today:

- Each credit union is funded by shares purchased by its members. The purchase of a share allows the member to become an owner with the right to vote.
- Membership is limited to groups, each defined in the credit union's charter, who share a common bond of occupation or association, or are located within a well-defined neighborhood, community, or rural district.
- Member control is democratically exercised regardless of the number of shares held. No member has more than one vote.
- Management is placed in the hands of volunteers. Only one board officer may be compensated. No other member of the board of directors or any other committee member shall, as such, be compensated.
- Loans, which are the primary investment for credit unions, are made exclusively to members.

The passage of the Federal Credit Union Act established an administrative structure within the federal government for the supervision of federal credit unions. This structure was administered by a succession of federal agencies over the years until Public Law 91-206 was enacted in 1970. This law formed the National Credit Union Administration (NCUA) as an independent agency with responsibility for regulating and chartering federal credit unions.

Also in that year, Congress established the National Credit Union Share Insurance Fund within NCUA to insure the shares of all federal credit unions and participating state credit unions. The Fund is backed by the full faith and credit of the U.S. Government.

In 1978, the Federal Credit Union Act was amended to establish a three member board, appointed by the President, to head NCUA.

Today, most groups seeking to form or participate in a financial cooperative have a choice between state and federal regulators. The result has been unparalleled growth in the credit union movement and a rich tapestry of credit unions successfully serving the needs of their members -- from a small cooperative serving employees in a factory or members of a church, maintained in one of the members' homes, to a multi-billion dollar cooperative providing members around the world with a full complement of financial services.

This growth and diversity has required flexibility on NCUA's part to ensure that federal credit unions are able to meet the demands of the changing environment in which they operate. As credit unions and the financial world evolve, NCUA will continue to update its chartering policies to ensure that federal credit unions have the tools to fully serve their members.

NCUA-FM - CHAPTER 1 -- FEDERAL CREDIT UNION CHARTERING 7/94

NCUA-FM - I -- GOALS OF NCUA CHARTERING POLICY 7/94

NCUA's chartering policies are directed toward achieving three goals:

- to uphold the provisions of the Federal Credit Union Act concerning granting federal charters;
- to promote credit union safety and soundness; and
- to make quality credit union service available to all eligible groups who wish to have it.

NCUA may grant a charter to any group or combination of groups desiring credit union service where it finds:

- the group or groups possess an appropriate common bond;
- the subscribers are of good character and are fit to represent the group; and
- establishment of the credit union is economically advisable - i.e., it will be a viable institution and its chartering will not materially affect the interests of other credit unions or the credit union system.

Generally, these are the only criteria NCUA will look to. In unusual circumstances, however, NCUA may consider other factors, such as other federal law or public policy, in deciding if a charter should be approved.

NCUA-FM - II -- COMMON BOND 7/94

Congress, in the Federal Credit Union Act, has recognized three types of federal credit union common bonds -- occupational, associational, and community. A federal credit union may also consist of a combination of occupational, associational, and, in certain limited circumstances, community groups. For example, NCUA may charter a federal credit union consisting of employees of a local school district and members of a church group.

The Federal Credit Union Act and NCUA recognize that individual groups have their own common bond. All of the groups belonging to one particular credit union included in Section 5 of the credit union's charter make up the credit union's field of membership. If the charter is granted, the federal credit union will only be able to grant loans and provide services to persons within the groups defined in the field of membership.

If a federal credit union later wishes to add persons to its field of membership, it must comply with the procedures set forth in Chapter 2.

NCUA-FM - II.A -- Occupational Common Bonds 7/94

II.A.1 -- General

A federal credit union may include in a single occupational common bond, regardless of location, any and all persons who share that common bond. NCUA permits a person's membership in an occupational common bond to be established in a number of ways:

- Employment (or a long-term contractual relationship equivalent to employment) in a single corporation or other legal entity makes that person part of an occupational common bond of employees of the entity.

- Employment in a corporation or other legal entity with an ownership interest in or by another legal entity makes that person part of an occupational common bond of employees of the two entities.
- Employment in a corporation or other legal entity which is related to another legal entity (such as a company under contract and possessing a strong dependency relationship with another company) makes that person part of an occupational common bond of employees of the two entities.

A proposed federal credit union must supply documentation from as many authorized representatives as are needed to establish that all persons to be included in a single occupational common bond are in fact linked in one of the ways described above.

An occupational common bond must include a geographic definition, e.g., "employees, officials, and persons who work regularly under contract in Miami, Florida for ABC Corporation or any of these majority-owned subsidiaries...." Other acceptable geographic definitions are: "employees of ... who are paid from..." or "employees of ... who are supervised from..." To the maximum extent possible, setting geographic definitions by changeable corporate or division boundary - e.g., "employees of Federal Reserve District 6" - is to be avoided.

So that NCUA can monitor any potential field of membership overlaps, each group to be served (e.g., employees of subsidiaries, franchisees, and contractors) may be separately listed.

The employer may also be included in this common bond - e.g., "ABC Corporation and its subsidiaries." The employer group will be defined in the last clause describing the field of membership.

II.A.2 -- Sample Occupational Fields of Membership

Some examples of occupational group definitions are:

- "Employees of the Scott Manufacturing Company who work in Chester, Pennsylvania..." (common bond - same employer)
- "Employees and elected and appointed officials of the municipal government in Parma, Ohio..." (common bond - same employer)
- "Employees of Johnson Soap Company and its majority-owned subsidiary, Johnson Toothpaste Company, who work in Augusta and Portland, Maine..." (common bond - parent and majority-owned subsidiary company)
- "Personnel of fleet units of the U.S. Navy home ported at Mayport, Florida..." (common bond - same employer)
- "Department of Defense civilian and U.S. Army personnel who work or are stationed at, or are attached or assigned to Fort Belvoir, Virginia, or those who are retired from, or their dependents or dependent survivors who are eligible by law or regulation to receive and are receiving benefits or services from, that military installation..." (common bond - same employer)
- "Employees of those contractors who work regularly at U.S. Naval Shipyard in Bremerton, Washington..." (common bond - employees of contractors)
- "Employees, doctors, medical staff, technicians, medical and nursing students who work at Boston Medical Center at the locations stated..." (common bond - same employer)

- "Employees and teachers who work for the School District Number 3 in Austin, Texas..." (common bond - same employer)
- "Employees of the JKL Employee Leasing Company who are paid from Lake Charles, Louisiana..." (common bond - same employer)
- "Employees of JKL, Inc. and STU, Inc. working for the XYZ Joint Venture Company in Los Gatos, California..."

Some examples of insufficiently defined occupational groups are:

- "Employees of engineering firms in Seattle, Washington." (Not the same occupational common bond, since various firms compete against one another; names of firms must be stated; however, may be the basis for a multiple group charter.)
- "Persons employed or working in Chicago, Illinois." (No common bond; names of firms must be stated.)
- "Persons working in the entertainment industry in California." (No occupational common bond, since firms compete against one another; names of firms must be stated.)

NCUA-FM - II.B -- Associational Common Bonds 7/94

II.B.1 -- General

A federal credit union may include in its field of membership, regardless of location, all members of a recognized association.

NCUA limits this common bond to groups consisting primarily of individuals (natural persons) who participate in activities developing common loyalties, mutual benefits, and mutual interests. Except for student, church, and similar groups, all associational common bonds will include a definition of the group that may be served based on the effective date of the association's charter and bylaws and a geographic limitation. Therefore, with the exceptions noted above, applicants for an associationally-based federal credit union charter must provide a copy of the association's charter and bylaws.

Qualifying associational groups must hold meetings open to all natural person members at least once a year, must sponsor other activities which clearly demonstrate that the members of the group meet and interact regularly to accomplish the objectives of the association, and must have an authoritative definition of who is eligible for membership - usually, this will be the association's charter and bylaws.

In determining whether a group satisfies the common bond requirement for a federal credit union charter, NCUA will consider the totality of the circumstances -- such as whether members pay dues, have voting rights, and hold office, whether the group maintains a membership list, the clarity of the associational group's definition and compactness of its membership, and the frequency of meetings and the interaction of members. A support group, whose members are continually changing, may not meet the criteria.

NCUA's focus with respect to chartering associational federal credit unions will be on the group's natural person members. In certain instances, however, NCUA will also allow nonnatural persons (e.g., corporate sponsors, entities participating in programs to alleviate poverty and distress, or organizations of members) to be eligible for membership. It is not necessary that every nonnatural person member of the group be a recognized legal entity; NCUA will consider such groups on a case-by-case basis.

Student groups -- for example, parent-teacher organizations, alumni associations, and students in a trade school or other curriculum -- and church groups constitute associational common bonds and may qualify for a federal credit union charter. Since such groups usually do not have a formal association charter, there is no requirement for these groups to provide a charter or bylaws.

Homeowner associations, tenant groups, electric co-ops, consumer groups and other groups of persons having an "interest in" a particular cause and certain consumer cooperatives may be eligible to receive a federal charter. However, they must make a strong showing of common activities which clearly demonstrate that the group meets and interacts regularly to accomplish the objectives of the association. Furthermore, they must provide clear evidence of economic viability.

Newly-organized associations must make a similar strong showing of common activities. Experience has shown that a new group's efforts are best focused on solidifying member interest before attempting to offer credit union service.

The associational sponsor itself may also be included in the field of membership - e.g., "ABC Association" - and will be shown in the last clause of the field of membership.

II.B.2 -- Subsequent Changes to Association's Bylaws

If the association's membership or geographical definition in its charter and bylaws is changed subsequent to the effective date stated in the field of membership, the credit union must submit the revised charter or bylaws for NCUA's consideration prior to serving members of the association added as a result of the change. This type of field of membership amendment will require following the select group amendment procedures discussed in Chapter 2.

II.B.3 -- Widely Dispersed Associational Charters

NCUA policy is to charter associational federal credit unions at the lowest organizational level which is economically feasible. NCUA will grant associational charters with widely dispersed memberships only where clearly demonstrated to be in the best interests of the association's members and the credit union community, and only after scrutinizing the adequacy of the applicant's common bond and the economic advisability of a more compact field of membership. NCUA, in its discretion, may require that the proposed field of membership be narrowed before granting a new charter. Amendment to include a larger portion of the association's members may be allowed at a later time, if appropriate.

Also, as with any widely dispersed group, overlap issues are likely to arise, either at the time of or subsequent to chartering. NCUA will consider the effect that granting a charter with such a group in its field of membership would have on any number of existing credit unions. In addition, an associational credit union with a widely dispersed membership may expect overlaps, particularly at the local level, to be granted to other credit unions in the future.

In recognition of these unique circumstances, NCUA follows a separate internal procedure for associational charter applications for associations with proposed fields of membership of 500 or more persons which cross NCUA regional boundaries. NCUA's Director of Examination and Insurance and all NCUA regional directors with any of the association's members located in their region must vote on the charter application. A majority vote is required for approvals. Tie votes are referred directly to the NCUA Board for decision.

II.B.4 -- Limits of Associational Common Bond

Except for retiree clubs and low-income groups (discussed below), associations formed primarily to obtain a federal credit union charter do not have a sufficient associational common bond. Similarly, associations based on a client-customer relationship - for example, an insurance company and its customers or a buyer's club and its members - do not have a sufficient associational common bond.

The common bond extends only to the association's members. The employees of a member of a local chamber of commerce, for example, do not have a sufficiently close tie to the association to be included. A proposal to include these persons among those to be served by the federal credit union may be considered as a multiple-group charter application. In such cases, letters of support and request for service must be provided from each separate entity.

II.B.5 -- Sample Associational Fields of Membership

Some examples of associational group definitions are:

- "Regular members of Locals 10 and 13, IBEW, Miami, Florida, who qualify for membership in accordance with their charter and bylaws in effect on May 20, 1994."
- "Members of the Hoosier Farm Bureau who live or work in Grant, Logan, or Lee Counties of Indiana, who qualify for membership in accordance with its charter and bylaws in effect on March 7, 1994."
- "Members of the First Baptist Church in Topeka, Kansas."
- "Members of the Shalom Congregation in Chevy Chase, Maryland."
- "Regular members of the Corporate Executives Association, located in Westchester, New York, who live or work in Westchester, Rockland, and Suffolk Counties in New York, who qualify for membership in accordance with its charter and bylaws in effect on December 1, 1994."
- "Members of the Northern Michigan Electric Co-op located in Marquette, Michigan."
- "Members of the ABC Association living or working in New York, New York, who qualify for membership in accordance with its charter and bylaws in effect on January 21, 1994."

Some examples of insufficiently defined associational group definitions are:

- "Members of military service clubs in the State of New Mexico." (No single associational tie; specific clubs and locations must be named; may be considered as multiple group.)
- "Veterans of U.S. military service." (Group is too broadly defined; no formal association of all members of the group.)

Some examples of unacceptable associational common bonds are:

- "Members of ABC Buyer's Club." (An interest in purchasing does not meet associational standards.)
- "Customers of ABC Insurance Company." (Policyholders or customer/client relationships do not meet associational standards.)

II.C.1 -- General

Congress requires that a credit union charter, based on a tie to a specific geographic location, be limited to "a well-defined neighborhood, community, or rural district." NCUA policy is to limit the community to a single, geographically, well-defined area where residents interact.

NCUA recognizes three types of affinity on which a community common bond can be based -- persons who live in, persons who worship in, and persons who work in the community. Businesses and other legal entities within the community boundaries may also qualify for membership. Given the diversity of community characteristics throughout the country and NCUA's goal of making credit union service available to all eligible groups who wish to have it, NCUA has established the following common bond requirements for community charters:

- The geographic area's boundaries must be clearly defined; and
- The charter applicant must establish that the area is recognized as a distinct "neighborhood, community, or rural district."

II.C.2 -- Special Documentation Requirements

Information to support that the area chosen represents one well-defined area, distinguishable from the immediate surrounding areas, includes:

- political jurisdictions;
- major trade areas (shopping patterns);
- traffic flows;
- shared/common facilities (for example, educational, medical, police and fire protection, school district, water, etc.);
- organizations/clubs whose membership is made up exclusively of persons within the area;
- newspapers or other periodicals published for and about the area;
- census tracts;
- common characteristics and background of residents (for example, income, religious beliefs, primary ethnic groups, similarity of occupations, household types, primary age group, etc.);
- history of area; and
- in general, what causes the chosen area and its residents to be distinguishable from the immediate surrounding areas and residents -- some examples are old, well-established ethnic neighborhoods, planned communities, and small/rural towns.

The following information must be provided to support a need for a community credit union:

- a list of credit unions presently in the area; and
- a list of other financial institutions (for example, banks, savings and loan associations) that service the area.

Necessary written documentation (for example, letters, surveys, studies, pledges, petitions) reflecting support for the application for or the conversion to a community credit union is as follows:

- For the residents of the area:

- approximate number contacted
- number in favor of the credit union
- number against the credit union
- number who will join the credit union
- number who have pledged initial and/or systematic savings and amount of pledges.
- For the employers:
 - number of area employers and number of employees
 - number contacted
 - number in favor of the credit union
 - number against the credit union.
 - number willing to provide payroll deductions to the credit union.
 - number willing to provide other type(s) of support to the credit union.
- For organizations (including churches):
 - number in areas and number of members
 - number contacted.
 - number in favor of the credit union.
 - number against the credit union.
 - number willing to provide some type of support to the credit union, i.e., advertising, facilities, etc.
 - letters of support from area civic leaders.

If the community is also a recognized legal entity, it may comprise or be included in the field of membership -- for example, "DEF Township, Kansas" or "GHI County, Minnesota."

II.C.3 -- Community Service Area

The service area of a community federal credit union is the area defined in its charter, usually with north, east, south, and west boundaries.

II.C.4 -- Sample Community Fields of Membership

Some examples of community common bond definitions are:

- "Persons who live or work in, and businesses located in the area of XYZ City bounded by Fern Street on the north, Long Street on the east, Fourth Street on the south, and Elm Avenue on the west."
- "Persons who live or work in Green County, Maine..."
- "Persons who live, worship or work in businesses and other legal entities located in Independent School District No. 1, DuPage County, Illinois..."
- "Persons who live or work within a 20-mile radius of the main post office in Walnut, Illinois..." (Rural areas only.)

Some examples of insufficiently defined community common bond definitions are:

- "Persons who live or work within, and businesses located within a 10-mile radius of Washington, D.C." (Not a recognized neighborhood, community, or rural district.)
- "Persons who live or work in the industrial section of New York, New York." (Not a recognized neighborhood, community, or rural district.)

NCUA-FM - II.D -- Multiple Occupational/Associational Common Bonds 7/94

II.D.1 -- General

NCUA may charter a federal credit union to serve a combination of distinct, definable occupational and/or associational common bonds. For a common bond which will constitute a majority of the federal credit union's field of membership, the requirements for occupational and associational fields of membership apply. Any other group constituting an occupational or associational common bond to be included within the federal credit union's field of membership must be within what will be the credit union's operational area.

A proposed federal credit union's operational area is the area which, as determined by NCUA in its sole discretion, may reasonably be served by the service facilities that will be accessible by the groups to be included in the field of membership when the credit union begins operation. A credit union's service facility is a place where, also as determined by NCUA in its sole discretion: (1) shares are accepted for members' accounts; (2) loan applications are accepted and/or loans are disbursed; (3) a member can deal directly with a credit union representative; and (4) the service provided is clearly associated with that particular credit union. An automated teller machine or similar device is not a federal credit union service facility. Similarly, a branch or service center shared by a number of credit unions is not a service facility for purposes of this chapter.

Any members of a group who will have access to one of a proposed federal credit union's service facilities may be included in the field of membership. In addition, the group as a whole will be considered to be within a proposed credit union's operational area when:

- A majority of the group's members live, work, or gather regularly within the operational area;
- The group's headquarters is located within the operational area; or
- The group's "paid from" or "supervised from" location is within the operational area.

The following special additional requirements pertaining to multiple group applications must be satisfied before NCUA will grant such a charter:

- Each group to be included in the proposed field of membership of the federal credit union must have its own occupational or associational common bond.
- Except for employee groups in the same industrial park, shopping center or similar facility, each group must individually request inclusion in the proposed federal credit union's charter.
- The proposed federal credit union's business plan must show that the credit union will possess the financial resources and management capability to provide quality credit union service to each group.

- The proposed federal credit union must show that, when it begins operations, each group to be added will be within the operational area of a service facility to which the group will have access.

II.D.2 -- Sample Multiple Group Field of Membership

An example of a multiple group field of membership is:

"The field of membership of this federal credit union shall be limited to the following:

1. Employees of DuPont Corporation who work in Wilmington, Delaware;
2. Partners and employees of Smith & Jones, Attorneys at Law, who work in Wilmington, Delaware; and
3. Members of the GHI Association who live in Wilmington, Delaware, and qualify for membership in accordance with its charter and bylaws in effect on December 31, 1994.

II.D.3 -- Additional Documentation

For multiple group charters, NCUA will need the following, in addition to what is required for new charters generally:

- For each group seeking to be included in the proposed federal credit union's field of membership, the credit union must, provide a letter from the group, on the group's letterhead stationery and signed by an official representative of the group wherever possible, or if that is not possible, such other documentation or certification as the regional director may, in his or her discretion, deem appropriate, containing this information:
 - the fact that the group wants to obtain service from the proposed federal credit union, the kind of service it desires and the credit union has agreed to provide, and the extent to which the group supports the credit union -- e.g., by providing access to its employees or members via payroll deduction, by permitting use of employee or members' newsletter, etc.
 - the number of employees or members in the group.
 - the proximity to the proposed federal credit union's closest service facility.
 - the name of any credit union to which the group currently has access.
 - the group's headquarters location and all other work locations the credit union is proposing to serve.
- If the group is eligible for membership in another credit union, documentation must be provided to support inclusion of the group under the standards set forth in the "Overlaps" section of this chapter.

NCUA-FM - II.E -- Other Persons Sharing Common Bonds 7/94

A number of persons by virtue of their close relationship to a common bond group may be included, at the charter applicant's option, in the field of membership. These include the following:

- spouses of persons who died while within the field of membership of this credit union."
- "employees of this credit union."

- "persons retired as pensioners or annuitants from the above employment."
- "members of their immediate families."
- "volunteers."
- "organizations of such persons."

"Members of their immediate families" may be generally defined as deemed appropriate by a federal credit union when including this group among those to be served. To be made effective, however, the federal credit union's board of directors must approve the definition by resolution, and include it in Article XVIII, Section 2 of its bylaws. NCUA approval is not necessary.

Volunteers, by virtue of their close relationship with a sponsor group, may be included. Examples include volunteers working at a hospital or church.

Under Article II, Section 5 of NCUA's Standard Bylaws, if a member leaves the field of membership, standard member services are terminated. However, the board of directors may, by resolution, set forth the circumstances under which a member may maintain membership. This option is commonly referred to as the "once a member, always a member" bylaw provision. NCUA approval of this provision is not necessary.

NCUA-FM - III -- SUBSCRIBERS 7/94

Federal credit unions are organized by persons who donate time and resources and are responsible for determining the interest, commitment, and advisability of forming a federal credit union. Organizing a federal credit union takes considerable planning and dedication in order to ensure the success of the new credit union.

Persons interested in organizing a federal credit union should contact the NCUA regional office serving the state in which the credit union will be organized or one of the trade associations. Lists of NCUA offices and trade associations are shown in the appendices. NCUA will provide information to groups interested in pursuing a federal charter and will assist them in contacting an organizer.

credit union organizer may be a trade association representative or a person with training and experience in chartering new federal credit unions. The functions of the organizer are to provide direction, guidance, and advice on the chartering process. The organizer also provides the group with information about a credit union's functions and purpose, as well as technical assistance in preparing and submitting the charter application. Close communication and cooperation between the organizer and the group members are critical to the chartering process.

The Federal Credit Union Act requires that seven or more natural persons -- the "subscribers" -- must present to NCUA for approval a sworn organization certificate stating at a minimum:

- the name of the proposed federal credit union.
- the location of the proposed federal credit union and the territory in which it will operate.
- the names and addresses of the subscribers to the certificate and the number of shares subscribed by each.
- the initial par value of the shares.
- the detailed proposed field of membership.

- the term of the existence of the corporation, which may be perpetual.
- the fact that the certificate is made to enable such persons to avail themselves of the advantages of the Federal Credit Union Act.

False statements on the organization certificate may be grounds for federal criminal prosecution.

NCUA-FM - IV -- ECONOMIC ADVISABILITY 7/94

NCUA-FM - IV.A -- Viability 7/94

IV.A.1 -- General

Before chartering a federal credit union, NCUA must be assured that the institution will be viable and that it will not materially affect existing state or federal credit unions. This economic advisability inquiry has become especially important since 1970, when Congress assigned NCUA the obligation to establish a fund insuring credit union members' shares and to preserve that fund.

NCUA will conduct an independent, on-site investigation of each charter application to assure itself that the proposed credit union can be successful. In general, the success of any credit union depends on: (a) the character and fitness of management; (b) the depth of the members' support; and (c) present and projected market conditions.

IV.A.2 -- Proposed Management's Character and Fitness

The Federal Credit Union Act requires NCUA to satisfy itself as to the "general character and fitness" of the subscribers. In addition, prospective officials and employees will be the subject of credit and background investigations. The investigation reports must demonstrate their ability to effectively handle financial matters.

NCUA also needs assurance that the management team will have the requisite skills - particularly in leadership and accounting - and the commitment to dedicate the time and effort needed to make the proposed federal credit union a success.

IV.A.3 -- Member Support

While NCUA has not set a minimum size field of membership for chartering a federal credit union, experience has shown that a credit union with under 500 potential members is generally unlikely to succeed. Therefore, a charter applicant with a proposed field of membership of under 500 will have to demonstrate convincing support for the credit union. For example, a small occupational group must demonstrate a commitment for significant long-term support from the employer.

The group's size is meaningful only if members participate in the credit union. The charter applicant must show that a substantial percentage of the group's members will join the credit union and use its services. Survey results must be based, at a minimum, on a sampling of 250 potential members. In particular instances, especially where the common bond is broadly defined or newly established, NCUA may require a larger sampling.

IV.A.4 -- Present and Future Market Conditions - Business Plan

IV.A.4.a -- General

The ability to compete in the marketplace and to adapt to changing market conditions is key to the survival of any enterprise, and a

crucial part of that is the ability to plan well. NCUA, therefore, requires an applicant to submit a business plan based on realistic and supportable projections and assumptions, including, as a minimum, these elements:

- Mission statement;
- analysis of market conditions - economic prospects for the group, availability of financial services from other credit unions, banks, and savings and loans;
- summary of survey results;
- financial services needed/desired;
- financial services to be provided;
- how/when services are to be implemented;
- staffing of credit union and credentials of key employees;
- physical facility - office, equipment;
- type of record keeping system, including consideration of a data processing system;
- budget for 1st and 2nd year;
- semiannual pro forma financial statements for 1st and 2nd year, including assumptions - e.g., loan and dividend rates;
- goals for number of members;
- goals for operating independently;
- source of funds to pay expenses during initial months of operation;
- written policies (shares, lending, investments, funds management, capital accumulation, dividends);
- goals for shares and loans;
- plan for continuity - directors, committee members; and
- evidence of sponsor commitment if subsidies are critical to success of the federal credit union - evidence may be in the form of letters, contracts, or any other such document on which the proposed federal credit union can substantiate its projections.

NCUA expects that the subscribers and proposed officials will understand and support the business plan submitted.

IV.A.4.b -- Special Requirements for Community Credit Unions

Community credit unions are frequently more susceptible to competition from other local financial institutions and generally do not have substantial support from any single sponsoring company or association. Also, the lack of payroll deduction creates special challenges in the development of savings promotion programs and in the collection of loans. Therefore, it is essential for the group to develop a detailed and practical business plan for at least the first 3 years of operation. The business plan should contain, but not necessarily be limited to, the following:

- Analysis of market area -- geographic, demographic, employment, income, housing, and economic data.

- Service/market strategy -- financial and other services to be provided, new member/share/loan promotion policies and procedures, and income generation strategy.
- Organizational/management plan -- qualification and planned training of officials/employees, operating facilities to include office space/equipment and supplies, accounting system, safeguarding of assets, insurance coverage, etc.
- Financial plan -- sources and application of funds statements and proforma balance sheet and income/expense statements and assumptions.

NCUA-FM - IV.B -- Effects on Other Credit Unions -- Overlaps 7/94

(This discussion pertains to new and existing charters.)

IV.B.1 -- Overlaps In General

An overlap exists when a group of persons is eligible for membership in two or more credit unions, including state charters. General policy requires that every reasonable effort be made to avoid an overlap. Ideally, a group of persons should be included in the field of membership of only one credit union.

New credit unions are obligated to investigate the possibility of an overlap prior to submitting an application for a new charter by surveying the prospective field of membership.

When a potential overlap situation does arise, officials of the involved credit unions must attempt to work the problem out between or among themselves. In the case of a new federal credit union applying for or converting to a community field of membership, the applicant will generally be required to contact only those credit unions with a service facility within the community boundary. Other credit unions serving select groups within the proposed area will not ordinarily be contacted or afforded overlap protection unless a significant portion of their field of membership is affected. If the matter is resolved informally, the applicant must submit a letter to that effect from the credit union whose field of membership already includes the subject group.

If no resolution is possible, an application for a new charter may still be submitted, but must also include information regarding the overlap and document attempts at informal resolution. Documentation on the interests of the group, such as a petition signed by a majority of the group's members, will be strongly considered.

When resolution of the issue is not possible, and other circumstances warrant, an overlap may be permitted. Among the circumstances which may justify an overlap are:

- failure of the original credit union to provide quality service;
- limited participation by members or employees of the group in the original credit union after the expiration of a reasonable period of time; and
- incidental overlap -- the group of persons in question is so small as to have no material effect on the original credit union.

In reviewing the overlap, the regional director will consider the nature of the issue, efforts made to resolve the matter, financial effect on the overlapped credit union, the desires of the group(s), the desire of the sponsor organization, the opinion of the state credit union

supervisor and other interested parties, as applicable, and the best interests of the affected group and the credit union members involved.

Potential overlaps of a state credit union's field of membership by a federal credit union will generally be analyzed in the same way as if two federal credit unions were involved. However, where a state credit union's field of membership is so general as to include virtually everyone in a wide area, NCUA may exclude any state credit union from overlap protection altogether just as it would with a federal credit union with a broadly defined field of membership. Prior to making that decision, the regional director will consult the credit union and the state regulator. Any decision by the regional director will be provided in writing to the credit union and the state regulator.

Generally, NCUA will permit federal credit unions serving occupational groups to overlap associational and community charters. However, should the proposed overlap pose significant safety and soundness concerns, NCUA may provide overlap protection for any type charter. For example, labor union groups constitute an associational common bond, and while some labor unions serve members who work regularly for several employers, others have members who work for only one employer. In these latter cases, overlap protection may be provided if a substantial portion of the company's employees are served by the credit union.

Some situations may not justify approval of a requested overlap. For example, if the requesting credit union offers certain specialized services not offered by the original credit union (such as credit cards, ATMs, and IRAs), the extra services alone may not justify the overlap. Also, proximity, by itself, may not warrant approval of an overlap. A federal credit union in Chicago, Illinois, may not have a convincing argument, based on geography alone, that a select group also located in Chicago would be better served by it than by the select group's headquarters credit union located in Dallas, Texas.

From an overlap prevention perspective, new charter applicants and every occupational or associational group which comes before the regional director for affiliation with an existing federal credit union must advise in writing whether the group is included within the field of membership of any other credit union. This requirement will alert the regional director to possible overlap situations before they occur.

Most potential field of membership conflicts can be avoided in this way. If cases do arise where the assurance given to a regional director concerning unavailability of credit union service turns out later to be inaccurate, the misinformation is grounds for removal of the group from the federal credit union's charter.

IV.B.2 -- Overlap Issues as a Result of Organizational Restructuring

A federal credit union's field of membership will always be governed by the group descriptions contained in Section 5 of its charter. Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of a group described in Section 5. Where acquisitions are made which add a new wholly-owned or majority-owned subsidiary, the group cannot be served until the subsidiary is included in the field of membership.

Overlaps may occur as a result of restructuring of the parent organization. Credit unions affected by organizational restructuring are required to first attempt to resolve overlap issues among themselves. Once the affected credit unions reach agreement, they must apply to NCUA

for a modification of their fields of membership to reflect the groups each will serve.

In addition, credit unions must submit correspondence from the parent organization explaining the restructuring and providing information regarding the new organizational structure to NCUA. To help in future monitoring of overlaps, the organizational structure should identify divisions and subsidiaries and the location and number of employees at each location.

Overlaps may also occur as a result of the parent organization's merger. NCUA's general policy of avoiding overlaps applies to those resulting from corporate mergers as well. Affected credit unions must make every reasonable effort to identify up front and address the overlap issue raised by parent corporation mergers and must attempt to resolve any differences among themselves. In those rare cases which require NCUA's intervention, all attempts to resolve the issues must be fully documented by the affected credit unions.

Affected credit unions should consider consolidation (merger) of institutions as a possible alternative to dividing up the field of membership, particularly if safety and soundness concerns exist or future viability is in question. A federal credit union which has a broad based field of membership generally has a better chance of survival when a sponsor restructures or closes.

While neutral, NCUA will make the final decision regarding field of membership amendments, taking into account the credit unions' agreements, safety and soundness concerns, the desires of the members, the significance of the overlap and other relevant issues.

NCUA will be flexible when working with credit unions affected by parent corporation mergers and divestitures. Where no other credit union service is available and the sponsor and its employees desire to continue service, NCUA may use wording such as the following:

"Employees of XYZ Corporation, formerly a subsidiary of ABC Incorporated, located in Charleston, South Carolina..."

IV.B.3 -- Overlaps -- Exclusionary Clauses

(This discussion pertains to new and existing charters.)

Where two credit unions agree and/or NCUA has determined that an overlap should be avoided, this decision may need to be memorialized in a federal credit union's charter through an exclusionary clause. Examples of exclusionary wording are:

- persons who work for Hilo Sugar Company, except those who work in or are paid from or are supervised from San Francisco, California.
- persons who work for the ABC Co., except those employed by the XYZ Division as of June 30, 1994.
- persons who work for the ABC Co., except those who were members of the XYZ Federal Credit Union as of June 30, 1994.

Exclusionary clauses are very difficult for credit unions and NCUA to monitor properly. To minimize this difficulty, NCUA generally does not require federal credit unions to apply exclusionary clauses to persons eligible for membership in another credit union simply because they are one of the "other persons sharing common bond" listed in Section II.E of this chapter.

Moreover, if phrased improperly or used in situations for which they are not suited, exclusionary clauses can be ineffective or create obvious

inequities -- one spouse may be eligible for membership in a federal credit union while the other may not; one employee may be eligible for credit union service while the person working next to him or her may not. For this reason, exclusionary clauses are rarely if ever appropriate for inclusion in a community charter's field of membership as a way to resolve overlap concerns.

One example of an appropriate use of an exclusionary clause may be where there is a merger of two corporations served by two credit unions which will continue to serve their groups as they had prior to their sponsors' consolidation. Addition of an exclusionary clause to the field of membership of one or both of the credit unions may be the best way to clarify the division of service responsibility within the new corporate entity.

When an exclusionary clause is included in a federal credit union's field of membership, NCUA will strive to define as precisely as possible:

- the identity of the group to be excluded;
- whether the exclusion is to apply to the entire group or only to those who are actually members of another credit union; and
- whether the exclusion is to apply only to the current members of the group or to future members as well.

NCUA-FM - V -- SPECIAL SITUATIONS 7/94

There are some instances where, because of overriding policy, special common bond rules apply. To ensure quality service to as many low-income and senior citizens as possible, NCUA has established broader common bond rules for federal credit unions seeking to serve those groups. Further, to expedite service to groups in industrial parks, shopping centers, and similar areas, the documentation requirements for federal credit unions seeking to serve these groups have been simplified. Finally, to ensure consistency throughout the credit union movement, NCUA has centralized decision making for the corporate credit union program in the Central Office.

NCUA-FM - V.A -- Low-Income Credit Union Groups 7/94

V.A.1 -- General

A low-income credit union is defined in Part 701.32 of the NCUA Rules and Regulations as one where a majority of its members either earn less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics, or whose annual income falls at or below 80 percent of the median household income for the nation. In documenting its low-income membership, a credit union that serves a geographical area where a majority of residents fall at or below the annual income standard is presumed to be serving predominantly low-income members.

A credit union designated by NCUA as serving predominantly low-income members has greater flexibility in accepting nonmember deposits insured by the National Credit Union Share Insurance Fund. It may also participate in special funding programs such as the Community Development Revolving Loan Program for Credit Unions if it is involved in the stimulation of economic development and community revitalization efforts. A credit union participating in the revolving loan program is also eligible for technical assistance. The requirements for participation in the revolving loan program are set forth in Part 705 of NCUA's Regulations. Only operating credit unions are eligible for participation in the revolving loan program.

A federal credit union charter applicant meeting the definition of a low-income credit union should forward a separate request for low-income designation, along with appropriate documentation, at the time the charter application is submitted. A charter applicant's low-income designation will be based on its primary field of membership and not on its actual members as is the practice for operating credit unions. In most cases, if the credit union qualifies, NCUA will grant the charter and low-income designation simultaneously.

A low-income federal credit union charter applicant may contract with a third party to assist in the chartering process. Even after the charter is granted, a low-income credit union may contract with a third party to provide necessary management services. Such contracts should be for a duration of 1 year subject to renewal. However, within 3 years of commencement of operations, the credit union should no longer require such services.

V.A.2 -- Special Common Bond Rules for Low-Income Federal Credit Unions

Generally, a low-income credit union is chartered as a community or associational credit union. A low-income credit union that has a community common bond may include the following language in its field of membership:

"Persons who live in [the target area]; persons who regularly work, worship, perform volunteer services, or participate in associations headquartered in [the target area]; persons participating in programs to alleviate poverty or distress which are located in [the target area]; incorporated and unincorporated organizations located in [the target area] or maintaining a facility in [the target area]; and organizations of such persons."

In recognition of the special efforts needed to help make credit union service available to persons in low-income communities, NCUA permits credit union chartering and field of membership amendments based on associational groups formed for the sole purpose of making credit union service available to low-income persons. The association must be defined so that all its members will meet the low-income definition of Part 701.32 of NCUA's Regulations. The association, in documenting its low-income membership, may use the same types of documentation as is currently permitted for determining whether a community is low-income under Part 701.32 of NCUA's Regulations.

In addition, a proposed low-income community or associationally-based federal credit union may include in its field of membership, without regard to location, another group constituting an occupational, associational, or community common bond. Except for the operational area requirements, the proposed credit union must meet all the requisites for including the group in its charter. Moreover, the proposed credit union must take care to ensure that it will continue to meet the requirements for low-income status.

V.A.3 -- Special Common Bond Rules for Other Federal Credit Unions Seeking to Serve Low-Income Persons

In the interest of making credit union service available to persons in low-income communities, NCUA also permits any occupational, associational, multiple group, or community federal credit union to include in its field of membership, without regard to location, communities and associational groups satisfying the low-income definition of Part 701.32 of NCUA's Regulations. The associational group may be formed for the sole purpose of providing eligibility for federal

credit union service, but must comprise only persons meeting NCUA's low-income definition.

The federal credit union adding the low-income community or association must document that the community or association meets the low income definition in Part 701.32 of NCUA's Regulations, just as is required for a designated low-income credit union. A federal credit union adding such a community or association, however, would not be able to receive the benefits, such as expanded use of non member deposits and access to the Community Development Revolving Loan Program for Credit Unions, offered to low-income credit unions.

A federal credit union that desires to include a low-income community or association in its field of membership must first develop a business plan specifying how it will serve the entire low-income community. The business plan, at a minimum, must identify the credit and depository needs of the low-income community or association and detail how the credit union plans to serve those needs. The credit union will be expected to regularly review the business plan, as well as loan penetration rates in the community to determine if the community is being adequately served. NCUA will require periodic service status reports on its service to the low-income community and may review the credit union's service to low-income persons during examinations.

NCUA-FM - V.B -- Retiree and Senior Citizen Groups 7/94

Special common bond rules also apply for providing service to retiree and senior citizen groups. It is NCUA policy to encourage federal credit unions to bring credit union service to senior citizens (aged 50 and over) and retired persons. To help in this effort, federal credit unions may form associations of such persons for the sole purpose of providing eligibility for credit union service. Except for the minimum age requirement of 50, the definition of a senior citizen is left to the credit union's discretion. Moreover, the only documentation requirement for including such an association in a federal credit union's charter is a written request from the credit union; no request from the group or copy of the association's charter or bylaws will be needed. In all other respects, however, the requirements for including an association in a federal credit union's field of membership apply, including those relating to the credit union's operational area.

NCUA-FM - V.C -- Employees at Industrial Parks, Shopping Centers, and Similar Areas 7/94

A federal charter may include in its field of membership persons working in a particular industrial park, shopping mall, office complex, or similar development either through a community or multiple group charter.

If the multiple group option is selected, NCUA permits the credit union to satisfy the requirement for a request from each of the groups through a request by the complex owner, leasing agent, or similar responsible official. The complex owner, leasing agent or similar official must provide information regarding credit union service available to any segment of the proposed select group amendment or proposed federal credit union. It is up to the applicant credit union to investigate whether credit union service is already available to any segment of the select group amendment or proposed charter.

In general, exclusionary clauses will not be used to protect any overlapped credit union. However, in those cases where each employee group in the complex has not specifically requested credit union service, NCUA may exercise broad discretion in addressing overlaps with

other credit unions and any request from a group to be removed from the field of membership.

The following or similar wording will be used to define groups added under this procedure:

"Employees who regularly work in the Plaza Mall, New Orleans, Louisiana"

If the community option is selected, the industrial park, shopping center, or office complex must meet the standards for community charters.

NCUA-FM - V.D -- Corporate Federal Credit Unions 7/94

A corporate credit union is defined as one that:

- is operated primarily for the purpose of serving other credit unions;
- is designated by NCUA as a corporate credit union; and
- limits natural person members to the minimum required by state or federal law to charter and operate the credit union.

Corporate credit unions operate under and are governed by standards different from those applicable to natural person credit unions. These standards are set forth in Part 704 of NCUA's Regulations.

Supervision of corporate credit unions is the responsibility of NCUA's Office of Examination and Insurance. All applications for federal corporate charters, as well as requested changes to Section 5 of the charter of existing corporate federal credit unions should be directed to that office.

NCUA-FM - VI -- NAME SELECTION 7/94

It is the responsibility of federal credit union organizers to ensure that the federal credit union applicant's name or federal credit union name change does not constitute an infringement on the name of any corporation in their trade area. This responsibility also includes researching any service marks or trademarks used by any other credit union in their trade area. NCUA will ensure, to the greatest extent possible, that the credit union's name:

- is not already being officially used by another federal credit union;
- will not be confused with NCUA or another federal or state agency, or with another federal credit union; and
- does not include inappropriate language.

The last three words in the name of every credit union chartered by NCUA must be "Federal Credit Union."

NCUA-FM - VII -- STEPS TO TAKE TO ORGANIZE A FEDERAL CREDIT UNION 7/94

NCUA-FM - VII.A -- Getting Started 7/94

Following the guidance contained throughout this policy, the organizers should submit the proposed field of membership to NCUA early in the process for written tentative approval.

Once the field of membership has been tentatively approved, and the organizer is satisfied the application has merit, the organizers should conduct a preliminary organizational meeting to elect seven to ten persons to serve as subscribers. The subscribers should locate willing individuals capable of serving on the board of directors, credit

committee, supervisory committee, and as chief operating officer/manager of the proposed credit union.

The organizers and subscribers should arrange for any meetings necessary to develop the business plan discussed in Section IV.A.4 of this chapter and to complete the documentation for submittal to NCUA. Each of the required documents is discussed more fully later in this chapter.

The organizers and subscribers must apply for insurance of member accounts. The Certificate of Resolutions (NCUA 9501) will be executed by the prospective chief executive officer and recording officer. Following action on this issue, the prospective chief executive officer and chief financial officer will execute the Application and Agreements for Insurance of Accounts (NCUA 9500). These documents should be provided to NCUA as part of the charter application.

The organizers and subscribers should also complete an NCUA 4012, Report of Official or Employee, for each prospective board member, credit and supervisory committee member, and employee. The NCUA 4012s should be submitted to NCUA as early as possible to enable the necessary credit reports and background checks to be obtained well in advance of the anticipated charter date. NCUA will pay the direct costs of acquiring such credit and background checks.

Subsequent organizational meetings may be held to discuss the progress of the charter investigation, to announce the proposed slate of officials, and to respond to any questions posed at the meeting.

If NCUA approves the charter application, the subscribers, as their final duty, will elect the board of directors and credit committee of the proposed federal credit union. The new board of directors will then appoint the supervisory committee.

NCUA-FM - VII.B -- Support for Charter Application 7/94

VII.B.1 -- General

As discussed previously in this chapter, applicants for federal credit union charters must, at a minimum, provide evidence that:

- the group constitutes a recognized common bond;
- the subscribers, prospective officials and employees are of good character; and
- the establishment of the credit union is economically feasible.

In addition, the Federal Credit Union Act requires applicants to submit a sworn organization certificate setting forth seven criteria (see section entitled "Subscribers" earlier in this chapter). In order to process the application and capture all required information, NCUA has developed certain chartering forms to assist organizers. See Appendix D for the necessary blank forms.

VII.B.2 -- Federal Credit Union Investigation Report, NCUA 4001

Applications for new federal credit unions will be submitted on NCUA 4001. (State-chartered credit unions applying for conversion to federal charter will use NCUA 4000. See Chapter 3 for a full discussion.) The organizer is required to certify the information and recommend approval or disapproval, based on the investigation of the request. Instructions and guidance for completing the form are provided on the reverse side of the form. Associational charter applicants must include a statement of their membership criteria (normally the group's charter or bylaws) and current financial statements on the associational sponsor.

VII.B.3 -- Report of Official and Employee, NCUA 4012

This form documents general background information of each official and employee of the proposed federal credit union. Each official must complete and sign this form. The organizers must review each of the NCUA 4012s for elements -- criminal convictions, indictments, etc. -- that would prevent the prospective official or employee from serving in an official capacity. Further, such factors as past due credit obligations and bankruptcies disclosed during credit checks may disqualify an individual.

VII.B.4 -- Organization Certificate, NCUA 4008

This document establishes the seven criteria required of subscribers by the Federal Credit Union Act and is signed by the subscribers and notarized. This document should be executed in duplicate. During his or her on-site contact, the NCUA staff member assigned to the case will assist in the proper completion of this document.

VII.B.5 -- Certification of Resolutions, NCUA 9501

This document certifies that the board of directors of the proposed federal credit union has resolved to apply for insurance of member accounts and has authorized the chief executive officer and chief financial officer to execute the Application and Agreements for Insurance of Accounts. This form must be signed by both the chief executive officer and recording officer of the proposed federal credit union.

VII.B.6 -- Application and Agreements for Insurance of Accounts, NCUA 9500

This document contains the agreements with which federal credit unions must comply in order to obtain National Credit Union Share Insurance Fund (NCUSIF) coverage of member accounts. The document must be completed and signed by both the chief executive officer and chief financial officer. Each prospective federal credit union must qualify for federal share insurance.

NCUA-FM - VIII -- NCUA REVIEW 7/94

NCUA-FM - VIII.A -- General 7/94

As discussed previously, NCUA may provide tentative approval of the proposed federal credit union's field of membership. Additionally, credit and background investigations may be conducted concurrently by NCUA with other work being performed by the organizers and subscribers to reduce the likelihood of delays in the chartering process.

Once NCUA receives a complete charter application package, an acknowledgment of receipt will be sent to the organizers within 10 business days of receipt, and a staff member will be assigned to perform an on-site contact with the proposed officials and others having an interest in the proposed federal credit union. NCUA will make every effort to process the application expeditiously.

The staff member will review the application package and verify its accuracy and reasonableness. The staff member will inquire into the financial management experience, suitability and commitment of the proposed officials and make an assessment of economic advisability. The staff member will also assist the subscribers in the proper completion of the Organization Certificate, NCUA 4008. By assisting in the completion of the Organization Certificate, the staff member may, without indicating his or her endorsement of the charter application, expedite the process.

The staff member will thoroughly analyze the prospective credit union's business plan for realistic projections, attainable goals, and time commitment. Any concerns will be reviewed with the organizers and discussed with the prospective credit union's officials.

The staff member will then make a recommendation to the regional director regarding the charter application. His or her recommendation may include specific provisions to be included in a Letter of Understanding and Agreement. In most cases, NCUA will require the prospective federal credit union's officials to enter into an agreement not to engage in certain activities. The agreement is for a limited term -- usually 2 to 4 years. A sample Letter of Understanding and Agreement is provided in Appendix B.

NCUA-FM - VIII.B -- Regional Director Approval 7/94

Once approved, the board of directors of the newly formed federal credit union will receive a signed charter and bylaws from the regional director. Additionally, the officials will be advised of the name and mailing address of the examiner who has been assigned responsibility for supervising and examining the credit union.

Generally, the examiner will contact the credit union officials shortly after approval of the charter in order to arrange for the initial examination (usually within the first 6 months of operation). Assistance in commencing operations is generally available through the various trade organizations listed in Appendix F.

NCUA-FM - VIII.C -- Regional Director Disapproval 7/94

Where a regional director disapproves any application, in whole or in part, under this chapter, the organizers will be informed in writing of the specific reasons for the action. Where applicable, the regional director will provide information concerning options or suggestions that they could consider for gaining approval or otherwise acquiring credit union service.

The letter of denial will include the procedure for and other information on the group's right to appeal the decision.

NCUA-FM - VIII.D -- Appeal of Regional Director's Decision 7/94

The procedures for filing an appeal of any actions taken by NCUA regional directors will be followed. If not included with the denial notice, a copy of these procedures may be obtained from the regional director who made the decision.

The prospective group may submit substantive new and additional information to the regional director for reconsideration. In these cases, the request will not be considered as an appeal but as a request for reconsideration by the regional director. If the request is again denied, the group may proceed with the appeal process.

NCUA-FM - IX - FUTURE SUPERVISION 7/94

Once NCUA has granted a charter to a new federal credit union, an examiner will be assigned to supervise the credit union.

The examiner will be responsible for monitoring the progress of the credit union and ensuring it gets off to a good start. The examiner will also monitor compliance with the terms of the Letter of Understanding and Agreement. Typically, the examiner will require copies of monthly board minutes and financial statements.

Each federal credit union is examined regularly by NCUA to determine that it remains in compliance with law and regulation, and to determine

that it does not pose undue risk to the National Credit Union Share Insurance Fund.

The Federal Credit Union Act requires all newly chartered credit unions, up to 2 years after the charter anniversary date, to obtain NCUA approval prior to appointment of any board member, any credit or supervisory committee member, or any senior executive officer. Part 701.14 of the NCUA Regulations sets forth the notice and application requirements. If NCUA issues a Notice of Disapproval, the newly chartered credit union is prohibited from making the change. NCUA may disapprove an individual serving as a director, committee member or senior executive officer if it finds that the competence, experience, character, or integrity of the individual would not be in the best interests of the members of the credit union or of the public to permit the individual to be employed by or associated with the credit union.

NCUA-FM - CHAPTER 2 -- AMENDMENTS TO THE FIELD OF MEMBERSHIP 7/94

NCUA-FM - I -- INTRODUCTION 7/94

As stated in Chapter 1, Section 5 of every federal credit union's charter defines the groups the credit union is legally entitled to serve. There are a number of instances in which Section 5 may need to be changed. On each of these occasions, the federal credit union must obtain approval from NCUA before amending its charter.

First, a group not included in a federal credit union's charter may wish to be served by that credit union. This may occur through agreement between the group and the credit union directly, or through a merger, purchase and assumption (P&A), or spin-off. Second, a federal credit union may wish to change its common bond entirely -- from an occupational to a community credit union, for example, or vice versa. Third, which is discussed in Chapter 3, a state-chartered credit union may wish to convert to a federal charter. (The field of membership of a federal credit union converting to a state charter is determined under applicable state law, except to the extent that the credit union seeks to continue to be federally insured and the proposed new field of membership would adversely affect the safe and sound operation of the institution.) Finally, a federal credit union may wish to remove a group from its field of membership -- for example, through agreement with the group or a spin-off.

NCUA's goals with respect to amendments of federal credit union charters are the same as for including groups in the charters of new federal credit unions. The Agency's analysis, therefore, is also similar, though adapted for the different circumstances in which the issue arises -- primarily the facts that the federal credit union is in existence and has a history of service that can be evaluated.

The three issues NCUA must evaluate in deciding whether to approve a change in a federal credit union's field of membership are:

- whether the change satisfies NCUA's common bond requirements;
- whether the interests of the group to be added are demonstrated;
and
- whether the change is economically advisable.

NCUA-FM - II -- ADDITIONS THROUGH DIRECT AGREEMENT WITH A GROUP 7/94

The most common type of addition to a federal credit union's field of membership is through agreement with the group itself. The requirements are similar to those for including a group in a federal credit union's charter initially.

NCUA-FM - II.A -- Common Bond Requirement 7/94

II.A.1 -- Additions to Fields of Membership of Occupational, Associational, and Multiple Occupational/Associational Federal Credit Unions

As with new multiple occupational/associational federal credit unions, occupational and associational groups may be added to occupational, associational, and multiple occupational/associational federal credit unions in two ways. If the group is part of an occupational or associational common bond which constitutes a majority of the federal credit union's field of membership, the group may be added regardless of location. These are commonly called "common bond additions." For any other occupational or associational common bond, the group must be

within the credit union's operational area. These are commonly called "select group additions."

The requirements for common bond additions are identical to those for inclusion of occupational and associational common bonds in a credit union's initial field, of membership; please refer to Section II.A and II.B of Chapter 1 for guidance. The requirements for select group additions are similar to those set forth in Section II.D of Chapter 1 for inclusion of other associational and occupational groups in a multiple group federal credit union's field of membership initially, with this exception: The credit union may add groups within the operational area of one of its planned service facilities if:

- The planned facility begins operation shortly after the group is added; and
- The current field of membership constitutes a significant portion of the total field of membership to be served initially by the proposed facility. Although the addition of a new select group alone is not enough to justify a planned service facility, it is permissible to include new groups as partial justification for such a facility.

Moreover, in the case of a planned facility, NCUA may, in its discretion, require financial projections and/or a business plan supporting amendments around that service facility in order to determine the economic feasibility and to address any safety and soundness concerns of the amendment.

II.A.2 -- Additions to the Common Bond of a Community Federal Credit Union

Community federal credit unions, except those designated low-income or distressed, may expand their fields of membership only by redefining their boundaries. There must be interaction among persons who live or work within the proposed well-defined neighborhood, community or rural district. The burden of proof for existence of the common bond is placed upon the applicant credit union.

In the majority of cases where community credit unions are asking to expand their areas of service, and in all cases where a conversion to a community charter is proposed, an NCUA staff member will make a documented on-site evaluation of the proposal. The staff member will prepare a separate analysis of the proposed amendment, independent of the credit union's application. Following completion of the on-site evaluation and regional office review of the staff member's report, the regional director will act on the proposal. Certain expansions require NCUA Board consideration.

II.A.3 -- Special Situations

II.A.3.a -- General

The special rules for credit unions serving low-income persons, serving retirees and senior citizens over 50 years old, and serving employees at industrial parks, shopping centers and similar facilities apply equally to field of membership additions. However, there are two special situations unique to existing federal credit unions: (1) corporate restructurings; and (2) plant or base closings, and other kinds of distress to a substantial portion of a credit union's membership.

II.A.3.b -- Corporate Restructuring

If an occupational or associational group within a federal credit union's field of membership undergoes a substantial restructuring, the

result is often that portions of the group are sold or spun off. This is an event which requires a change to the credit union's field of membership if the credit union is to continue to provide service. NCUA will permit a credit union to add to its field of membership a sold or spun off group to which it has been providing service, without regard to location, if the group requests continued service, documented by a letter from an official representative, on the group's letterhead where possible.

II.A.3.c -- Distressed Situations

If a major group within the field of membership of any federal credit union -- whether occupational, associational, community or multiple group -- suffers a severe economic reversal -- e.g., a plant or base closing -- one option for the credit union may be to diversify its field of membership by adding groups desiring to be served. If economically advisable, NCUA may facilitate the credit union's diversification efforts, to the extent and only until the credit union's viability is assured, by allowing the credit union to add occupational and associational groups without regard to location. To obtain this authorization, the credit union must submit a request for designation as a distressed credit union to its regional director.

The decision will be based on the totality of the circumstances, including the severity of the economic problem, whether offsetting gains from the expansion of other groups currently in its field of membership are reasonably foreseeable, the availability of other groups able to be served, the likely cost the credit union will incur in reorienting itself to serve those groups, the competitive environment it is operating in, the effect on other credit unions, and the availability of alternatives such as merger. Prior to making a determination on this issue, NCUA may request such additional information, including a business plan, as may be appropriate.

NCUA-FM - II.B -- Interests of the Group to be Added 7/94

Of primary concern to NCUA is that quality credit union service be provided to all groups served by a federal credit union. Therefore, with respect to each field of membership addition, NCUA requires documentation from each group to be added stating that it desires service from the applying credit union.

NCUA-FM - II.C -- Economic Advisability 7/94

Prior to granting a field of membership addition, NCUA will examine the amendment's likely effect on the credit union's operations and financial condition, and its likely effect on other credit unions. Most of the information needed for analyzing the effect of adding a particular group will already be available to NCUA through the examination and call reports; generally, nothing more will be needed. However, in particular cases, a regional director may ask for additional information prior to making a decision. With respect to a proposed addition's effect on other credit unions, the requirements on overlapping fields of membership set forth in Section IV.B of Chapter 1 apply here as well.

NCUA-FM - II.D -- Documentation Required 7/94

The documentation needed for community charter additions will vary substantially depending on the circumstances, and has been described in general terms above. For common bond and select group additions, which constitute the bulk of amendment requests, the procedures are more standardized. A federal credit union requesting such a change must submit a formal written request, using the Application for Field of Membership Amendment, NCUA 4015, shown in Appendix D, or its equivalent,

to the appropriate NCUA regional director. The request must be signed by an authorized credit union representative.

The Application for Field of Membership Amendment, NCUA 4015, must be accompanied by the following:

- A letter signed by an official representative of the group to be added. Wherever possible, this letter must be submitted on the group's letterhead stationery -- regional directors may, at their discretion, however, accept such other documentation or certification as they deem appropriate. This letter must indicate:
 - that the group wants to be added to the applicant federal credit union's field of membership;
 - whether the group presently has any credit union service available;
 - the number of persons currently included within the group to be added and their locations; and
 - in the case of a select group addition, the group's proximity to one of the credit union's service facilities to which the group has access.
- If the group is eligible for membership in any other credit union, documentation must be provided to support inclusion of the group under the standards set forth in Section IV.B of Chapter 1.
- If the group to be included is an associational group, the credit union must, where required as established in Chapter 1, also provide a copy of the group's charter and bylaws defining the group's purpose, membership classes, and geographical area.

NCUA-FM - III -- ADDITIONS THROUGH CONSOLIDATION WITH ANOTHER CREDIT UNION 7/94

NCUA supports credit unions desiring to remain a separate entity. However, there are three other ways a federal credit union can expand its field of membership, two of which result in a credit union's ceasing to exist -- by taking in the field of membership of another credit union through a merger or a purchase and assumption (P&A), or by taking a portion of a continuing credit union's field of membership through a spin-off. Spin-offs are discussed in Section VI of this chapter.

NCUA-FM - III.A -- Mergers 7/94

Generally, the standards applicable to field of membership amendments apply to mergers where the continuing credit union is a federal charter. In particular, where the merging credit union is state chartered, the field of membership rules applicable to a credit union converting to a federal charter apply. However, there are some differences:

- As to a merger involving a common bond addition, the requirements to provide a request for credit union service from the corporate, associational, or other unit to be added is not required, since the unit already has credit union service.
- As to a merger involving a select group addition:
 - For the same reason, the requirement for a letter from each group included in the credit union's field of membership is not required.

- Where a state credit union is merging into a federal credit union, the operational area requirement may be waived on a proper showing that the credit union will continue to be able to provide quality service to its current field of membership as a federal credit union. Upon merging, the state credit union's field of membership will be worded to conform to the NCUA standards set forth in Chapter 1. Any subsequent field of membership amendments must comply with applicable amendment procedures.
- As to a merger of a community credit union into a federal credit union of any type, the continuing credit union may be permitted to continue to provide service to the merging credit union's members of record as of the merger date where the operational area requirement is satisfied. Except in the case of an emergency merger, the continuing federal credit union can obtain only the members of record of the merging community credit union.

Where both credit unions are community charters, the continuing credit union is a federal credit union, and the criteria for expanding the service area of a community federal credit union (as discussed previously in this chapter) are satisfied, the entire field of membership of the merging credit union may be added to the continuing federal credit union's charter.

Mergers must be approved by all affected NCUA regional directors, and, as applicable, the state regulators.

NCUA-FM - III.B -- Emergency Mergers 7/94

A specifically designated emergency merger may be approved by NCUA without regard to field of membership or other legal constraints. An emergency merger involves NCUA's direct intervention. The credit union to be merged must either be insolvent or will likely become insolvent within 12 months and NCUA must determine that:

- an emergency requiring expeditious action exists;
- other alternatives are not reasonably available; and
- the public interest would best be served by approving the merger.

In an emergency merger situation, NCUA takes an active role in finding a suitable merger partner (continuing credit union). NCUA is primarily concerned that the continuing credit union has the financial strength and management expertise to absorb the troubled credit union without adversely affecting its own financial condition and stability.

As a stipulated condition to an emergency merger, the field of membership of the merging credit union may be transferred intact to the continuing federal credit union without regard to any field of membership restrictions and without changing the character of the continuing federal credit union for future amendments. Under this authority, therefore, a federal credit union may take into its field of membership a group defined by a community or associational common bond permitted under state law, regardless of whether that common bond definition could be approved under the Federal Credit Union Act.

NCUA-FM - III.C -- Purchase and Assumptions (P&As) 7/94

Another alternative for acquiring the field of membership of a failing credit union is through a consolidation known as a purchase and assumption (P&A).

A P&A has limited application because the failing credit union must be placed into involuntary liquidation. However, in the few instances where a P&A may occur, the assuming federal credit union, as with emergency mergers, may acquire the entire field of membership along with specified loans, shares and certain other designated assets and liabilities, without regard to field of membership amendment restrictions and without changing the character of the continuing federal credit union for purposes of future field of membership amendments.

P&As involving federally insured state credit unions in different NCUA regions must be approved by all affected regional directors and, as applicable, the state regulators.

NCUA-FM - IV -- FIELD OF MEMBERSHIP CONVERSIONS 7/94

A community federal credit union may convert to an occupational, associational, or multiple group credit union, and an occupational, associational, or multiple group credit union may convert to a community credit union. In any case, a change to the credit union's field of membership will be necessary.

NCUA-FM - IV.A -- Conversion to Occupational, Associational, or Multiple Group Federal Credit Union 7/94

A community federal credit union converting to an occupational, associational, or multiple group field of membership must meet the common bond and economic advisability requirements applicable to the type of charter which it seeks conversion to.

NCUA-FM - IV.B -- Conversion to Community Charter 7/94

An existing occupational, associational or multiple group federal credit union may apply to convert to a community charter. In most cases, groups currently in the credit union's field of membership but outside the new community credit union's boundaries may be included in the new community charter.

In order to support a case for a conversion to community charter, the applicant federal credit union must develop a detailed business plan incorporating the following data:

- current financial statements, including the income statement and a summary of loan delinquency;
- a map or maps showing both the existing and proposed boundaries for the field of membership;
- a written description of the area of community service for the proposed community credit union;
- the most current population figures for the existing and proposed boundaries;
- the source of the population information; census data are considered the most authoritative; the greater the population of the proposed area, the greater justification necessary to support the existence of the "community" and interaction among its residents;
- evidence in the form of surveys or letters from official representatives of prominent groups located in the area to be added showing that the persons who live, work, or worship in the area are interested in affiliating with the applicant credit union;

- evidence that the proposed area is a of "community" as defined in "Community Common Bond" in Chapter 1;
- information concerning the availability of financial services to the residents of the new area;
- a list of credit unions with a home or branch office in the proposed area. (If present credit union service to the residents of the new area is adequate, there may be no basis for the proposed conversion.);
- the attitude of current credit union sponsors and existing credit union members toward the proposed conversion; and
- the anticipated financial impact on the credit union in terms of need for additional employees and fixed assets.

NCUA-FM - V -- REMOVAL OF GROUPS FROM THE FIELD OF MEMBERSHIP 7/94

Credit unions may request removal of a group from its field of membership for various reasons. The most common reasons for this type amendment are:

- the group is within the overlapping field of membership of two credit unions and one wishes to discontinue service;
- the federal credit union cannot continue to provide adequate service to the group;
- the group has ceased to exist;
- the group does not respond to repeated requests to contact the credit union or refuses to provide needed support; or
- the group initiates action to be removed from the field of membership.

When a federal credit union requests an amendment to remove a group from its field of membership, the regional director will determine why the credit union wishes to remove the group and whether the existing members of the group will continue membership. Membership may continue for those who are already members if the credit union has adopted the "once a member, always a member" bylaw provision.

NCUA-FM - VI -- SPIN-OFFS 7/94

A "spin-off" occurs when, by agreement of the parties, a portion of the field of membership, assets, liabilities, shares and capital of a credit union, are transferred to a new or existing credit union. A spin-off is unique in that one credit union has a field of membership addition and the other has a removal.

If the spin-off goes to a new federal charter, the requirements of Chapter 1 apply. (See that chapter for discussion of the field of membership and documentation requirements for new federal charters.) If it goes to an existing federal charter, the requirements of Chapter 2 apply.

Spin-offs involving federally insured state credit unions in different NCUA regions must be approved by all affected regional directors and the state regulators, as applicable.

The request for approval of a spin-off must be supported with a plan that addresses, as a minimum:

- Why the spin-off is being requested.

- What part of the field of membership is to be spun-off.
- Whether the affected credit unions have a common sponsor or are located within the same operational area.
- Which assets, liabilities, shares and capital are to be transferred.
- The financial impact the spin-off will have on the affected credit unions.
- The ability of the acquiring credit union to effectively serve the new members.
- The proposed spin-off date.

The spin-off request must also include current financial statements from the affected credit unions and the proposed voting ballot.

For federal credit unions spinning off a group, membership notice and voting requirements and procedures are the same as for mergers -- see Part 708 of the NCUA Regulations -- except that only the members directly affected by the spin-off -- those whose shares are to be transferred -- are permitted to vote. Members whose shares are not being transferred will not be afforded the opportunity to vote. Voting requirements for federally insured state credit unions are governed by state statute.

NCUA-FM - VII -- PROFESSIONAL CONFLICTS 7/94

It is important for a credit union, as well as professional organizations such as accounting firms, law firms, real estate title insurance firms and appraisal firms, to avoid the appearance of impropriety when the credit union contracts with a professional organization for services. This is even more critical if the professional organization and/or its employees are members of the credit union.

When a professional organization is added to a federal credit union's field of membership, the credit union should notify professional organization of certain provisions. The following notice is intended to ensure that decisions made by a credit union and the professional organizations serving the credit union are independent of any loan decisions or deposit activities:

"Please be advised that with respect to the addition of the employees of [professional organization] to the [FCU], any lending, deposit and/or other credit union services involving this group's members must avoid any appearance of impropriety and must follow the ethical standards of the profession."

NCUA-FM - VIII -- PROCEDURES FOR AMENDING THE FIELD OF MEMBERSHIP 7/94

NCUA-FM - VIII.A -- General 7/94

All requests for approval to amend a federal charter must be submitted to the appropriate regional director. In normal cases, the regional director will make a decision on the request within 10 business days. If a decision cannot be made within that time, the regional director will notify the credit union within the 10-business-day period.

To streamline the process further, NCUA has instituted two additional procedures -- a limited preapproval process and a procedure for easing the workload when making substantial charter changes as with mergers and charter conversions.

NCUA-FM - VIII.B -- Streamlined Expansion Procedure (SEP) for Small Occupational Groups 7/94

In keeping with the goals of NCUA chartering policy to provide service to all eligible groups desiring credit union service, well-operated federal credit unions except those designated as "distressed" may take advantage of the SEP for adding occupational groups to their fields of membership.

To use this procedure, the federal credit union's board of directors must first apply to their respective NCUA regional director for a charter amendment. The charter amendment request must be signed by the presiding officer of the board of directors.

The following is a sample amendment for permitting a federal credit union to use the SEP authority:

Groups of persons with occupational common bonds which are located within 25 miles of one of the credit union's service facilities, which have provided a written request for service to the credit union, which do not presently have credit union service available, and which have no more members in the group than the maximum number established by the NCUA Board for additions under this provision: Provided, however, that the National Credit Union Administration may permanently or temporarily revoke the power to add groups under this provision upon a finding, in the Agency's discretion, that permitting additions under this provision are not in the best interests of the credit union, its members, or the National Credit Union Share Insurance Fund.

Once NCUA has approved the amendment and the credit union board has adopted it, the SEP authority may be implemented. The charter amendment permits approved federal credit unions to immediately begin serving employee groups meeting criteria set forth in this section. Under this procedure, there is no formal NCUA action necessary on each group being added.

The maximum number of persons for each group of employees which may be added under SEP will be established by the NCUA Board from time to time. The number will be based on potential primary members -- that is, the persons sharing the basic occupational affinity to each sponsor group; family members and other derivative members are not included in the SEP limit. Several groups may be simultaneously added using these procedures; however, the maximum number of persons for each group must fall within the SEP limit.

The SEP does not apply to associational groups since NCUA must review membership requirements and geographical area prior to these groups being added to a field of membership. The procedure also does not apply to community charter expansions because of the more individualized analysis required.

The following SEP steps and documentation requirements must be adhered to:

- The federal credit union must complete, for each group to be added, an Application for Field of Membership Amendment, NCUA 4015, shown in Appendix D.
- The federal credit union must obtain a letter, on the group's letterhead where possible, signed by an official representative identified by title, requesting credit union service and stating that the group does not have any other credit union service available from any source.

- The group must be located within 25 miles of one of the federal credit union's service facilities.
- The group must indicate the number of potential members -- the number of employees -- seeking service.
- The federal credit union must maintain the above documentation permanently with its charter.
- The federal credit union must maintain a control log of groups added to its field of membership under the SEP. The control log must include the date the group obtained service, the name and location of the sponsor group, the number of potential primary members added, the number of miles to the nearest main or branch office, the federal credit union board of director's approval of the group and the date approved. See Appendix D for the SEP Control Log, NCUA 4016.
- The groups added under SEP must be reported to the federal credit union's board at the next regular board meeting and made a part of the meeting minutes.
- The control log and other SEP documentation must be made available to NCUA upon request.

The regional director may from time to time request service status reports on group added under SEP. It is advisable to use some method, such as a sponsor prefix added to the member account number, to readily access data for such groups.

Should a federal credit union fail to provide quality credit union service, as determined by the group's members or employees, to a group added under SEP, NCUA may subsequently permit dual membership with another credit union.

Should a federal credit union fail to follow the above procedures or deteriorate financially or operationally, NCUA, in its discretion, may revoke the SEP privilege.

NCUA-FM - VIII.C -- Block Additions 7/94

When a state credit union is converting to a federal charter or when a credit union is being merged into a federal credit union, large blocks of select groups frequently are added to a credit union's field of membership. In such cases, the federal credit union whose field of membership is being revised should consult directly with the appropriate regional office early in the process to ensure the efficient treatment of such revisions and to avoid misunderstandings.

Therefore, when a block of 50 or more new groups is being added to a credit union's field of membership at any one time, NCUA may require that a list of the groups and their locations be provided on a computer diskette. Direct coordination with the appropriate NCUA regional office will ensure the compatibility of hardware and software.

NCUA-FM - VIII.D -- Regional Director's Decision 7/94

Except for those field of membership amendments resulting from use of the SEP, all such amendment requests will be reviewed by regional office staff in order to ensure conformance to NCUA policy, are properly documented, and do not cause significantly harmful or unreasonable overlap with the fields of membership of existing credit unions.

NCUA understands and appreciates the importance of timely processing well-supported amendment requests. Therefore, NCUA has established a goal of ten business days from the date of receipt in the regional

office for processing a routine, complete amendment request. A fully documented request, including the Application for Field of Membership Amendment, NCUA 4015, that fulfills all of the criteria discussed in this manual and does not require written or telephone follow-up will normally be processed within this time.

In some cases, an on-site review by NCUA staff may be required by the regional director before acting on a proposed amendment. In addition, the regional director may, after taking into account the significance of the proposed field of membership amendment, require the applicant to submit a business plan.

The condition of the requesting credit union will be considered in every instance. The economic feasibility of expanding the field of membership of a credit union with serious financial or operational problems must be carefully considered if the safety and soundness of the credit union is to be preserved.

In most cases, field of membership amendments will only be approved for credit unions which are operating satisfactorily. If a federal credit union is having difficulty providing good service to its current membership, it may have even more difficulty serving an enlarged field of membership. In some cases, expanding the field of membership of a struggling credit union may do more harm than good. A struggling credit union's resources need to be focused on current problems. Placing an additional strain on these resources by increasing the field of membership may also increase the credit union's problems.

NCUA-FM - VIII.E -- Regional Director's Approval 7/94

If the requested amendment is approved by the regional director, the credit union will be furnished a formal, updated Section 5 of its charter which restates the field of membership, including the requested amendment. After action by the board of directors, the form should be promptly filed with the credit union's official charter and bylaws.

NCUA-FM - VIII.F -- Regional Director's Disapproval 7/94

Where a regional director disapproves any application, in whole or in part, under this chapter, the applicant will be informed in writing of the specific reasons for the action. Where applicable, the regional director will provide information concerning options or suggestions that could be considered for gaining approval.

The denial letter will include the procedure for and other information on the credit union's right to appeal the decision.

NCUA-FM - VIII.G -- Appeal of Regional Director's Decision 7/94

The procedures for filing an appeal of any actions taken by NCUA regional directors will be followed. If not included with the denial notice, a copy of these procedures may be obtained from the regional director who made the decision.

The prospective group may submit substantive new and additional information to the regional director for reconsideration. In these cases, the request will not be considered as an appeal but as a request for reconsideration by the regional director. If the request is again denied, the group may proceed with the appeal process.

NCUA-FM - IX -- SERVICE STATUS REPORTS 7/94

Federal credit unions which frequently add select groups to their fields of membership should be prepared to furnish a written summary of the

results of their efforts to bring service to the employees or members of the select groups.

The regional directors will periodically request that such federal credit unions submit service status reports to NCUA showing, at a minimum, the number of primary potential members of each select group added and the number of persons from each select group who have actually enrolled as credit union members.

These service status reports can be enlarged to require information concerning aggregate share and loan activity by select group or participation in other credit union services.

In any event, federal credit unions using the select group amendment method should implement an information gathering system early in their amendment/diversification program to track their progress in providing service to the potential members of their select groups.

This information will help the credit union to operate more efficiently and will give management the data necessary to make decisions about marketing strategy, new promotions, implementation of new services, etc.

The service status reports will enable NCUA to determine which federal credit unions are serving newly added groups, as well as any federal credit unions that are not serving new groups.

If the NCUA determines that a federal credit union is not adequately serving new groups, the regional director may restrict further amendments and permit the groups not being adequately served to be overlapped with another federal credit union or remove the select group(s) not being served from Section 5 of the credit union charter.

NCUA-FM - CHAPTER 3 -- CHARTER CONVERSIONS 7/94

NCUA-FM - I -- INTRODUCTION 7/94

A charter conversion is a change in the jurisdictional authority under which a credit union operates. A credit union's charter is the instrument granted to the institution by the state or federal government.

Federal credit unions receive their charters from NCUA and are subject to its supervision, examination, and regulation; they are incorporated under federal law.

State-chartered credit unions are incorporated in a particular state, receiving their charter from the state agency responsible for credit unions and subject to the state's regulator. If the state-chartered credit union's deposits are federally insured it will also fall under NCUA's jurisdiction.

A federal credit union's power and authority are derived from the Federal Credit Union Act and NCUA Rules and Regulations. If the state-chartered credit union's deposits are federally insured it will also fall under NCUA's jurisdiction.

A federal credit union's power and authority are derived from the Federal Credit Union Act and NCUA Rules and Regulations. State-chartered credit unions are governed by state law and regulation. There are two types of charter conversions -- federal charter to state charter, and state charter to federal charter. Although common bond is not an issue from NCUA's standpoint in the case of a federal to state charter conversion, the procedures and forms relevant to such a conversion have been included in Appendix D.

NCUA-FM - II -- CONVERSION OF A STATE CREDIT UNION TO A FEDERAL CREDIT UNION 7/94

NCUA-FM - II.A -- General Requirements 7/94

Any state-chartered credit union may apply to convert to a federal credit union. In order to do so, it must:

- comply with state law regarding conversion;
- file proof of compliance with NCUA;
- file the required conversion application, proposed federal credit union organization certificate and other documents with NCUA;
- comply with the requirements of the Federal Credit Union Act, e.g., common bond and reserve requirements; and
- be granted a charter by NCUA.

Conversions are treated the same as any initial application for a federal charter, including mandatory on-site examination by NCUA. NCUA will also consult with the appropriate state authority regarding the credit union's current condition, management expertise, and past performance. Since the applicant in a conversion is an on-going credit union, the economic advisability of granting a charter is more readily determinable than in the case of an initial charter application.

Generally, a converting state credit union's field of membership must conform to NCUA chartering policy. However, if a converting credit union can demonstrate that it has been effectively serving groups outside what would have been its operational area if it had been a federal credit union, the regional director, in his or her discretion, may permit continued service to these groups after conversion. Every reasonable effort will be made to phrase the field of membership similar to the presentations in Chapters 1 and 2 with individually listed groups and their locations. In any case, subsequent changes must conform to NCUA amendment policy in effect at that time

NCUA-FM - II.B -- Submission of Conversion Proposal to NCUA 7/94

The following actions are to be taken before submitting a conversion proposal:

- The credit union board must approve a proposal for conversion.
- The Application to Convert (NCUA 4401) must be completed. Its purpose is to provide the regional director with information on the present operating policies and financial condition of the credit union and the reasons why the conversion is desired. A continuation sheet may be used if space on the form is inadequate. Particular attention should be given to answering the question on the reasons for conversion. These reasons should be stated in specific terms, not as generalities.
- The application must be accompanied by all required attachments including the following:
 - written evidence that the state regulator is either in agreement with the conversion proposal or, if not in agreement, the reasons therefore;
 - the Application for Insurance of Accounts (NCUA 9600) in the case of a state credit union that is not federally insured;
 - the Application and Agreements for Insurance of Accounts (NCUA 9500);
 - the Federal Credit Union Investigation Report, Conversion of State Charter to Federal Charter (NCUA 4000);
 - the most current financial report and delinquent loan schedule; and
 - the Organization Certificate (NCUA 4008). Only Part (3) and the signature/notary section of page 4 should be completed and, where applicable, signed by the credit union officials. The NCUA regional office will complete the other sections of this document.

NCUA-FM - II.C -- NCUA Consideration of Application to Convert 7/94

II.C.1 -- Review by the Regional Director

The application will be reviewed to determine that it is complete and that the proposal is in compliance with Section 125 of the Federal Credit Union Act. This review will include a determination that the state credit union's field of membership is in compliance with NCUA's chartering policies. The regional director may make further investigation into the proposal and may require the submission of

additional information to support the request to convert. At this point, NCUA will conduct an on-site review of the credit union.

II.C.2 -- On-Site Review

NCUA will examine the books and records of the credit union on-site. Nonfederally insured credit unions will be assessed an insurance application fee.

II.C.3 -- Approval by the Regional Director and Conditions to the Approval

The conversion will be approved by the regional director if it is in compliance with Section 125 of the Federal Credit Union Act and meets the criteria for federal insurance. Where applicable, the regional director will indicate any special conditions that the credit union must meet in order to convert to a federal charter, including changes to the credit union's field of membership in order to conform to NCUA's chartering policies. Some of these conditions may be set forth in a Letter of Understanding and Agreement (LUA), which requires the signature of the officials and the regional director.

II.C.4 -- Notification

The regional director will notify both the credit union and the state regulator of the decision on the conversion.

NCUA-FM - II.D -- Action by Board of Directors 7/94

II.D.1 -- General

Upon being informed of the regional director's approval, the board must:

- comply with all requirements of the state regulator that will enable the credit union to convert to a federal charter and cease being a state credit union;
- obtain a letter or official statement from the state regulator certifying that the credit union has met all of the state requirements and will cease to be a state credit union upon its receiving a federal charter. A copy of this document must be submitted to the regional director;
- obtain a letter from the share insurer, if applicable, certifying that the credit union has met all withdrawal requirements. A copy of this document must be submitted to the regional director; and
- submit a statement of the action taken to comply with any conditions imposed by the regional director in the approval of the conversion proposal and, if applicable, submit the signed LUA.

II.D.2 -- Application for a Federal Charter

When the regional director has received evidence that the board has completed the actions described above, the federal charter and new Certificate of Insurance will be issued.

The credit union may then complete the conversion as discussed in the following section. Denials are appealable. (See Chapter 1, Section VIII.D.)

NCUA-FM - II.E -- Completion of the Conversion 7/94

II.E.1 -- Effective Date of Conversion

The date on which the regional director approves the Organization Certificate and the Application and Agreements for Insurance of Accounts

is the date on which the credit union becomes a federal credit union. The regional director will notify the credit union and the state regulator of the date of the conversion.

II.E.2 -- Assumption of Assets and Liabilities

As of the effective date, the federal credit union will be the owner of all of the assets and will be responsible for all of the liabilities and share accounts of the state credit union.

II.E.3 -- Board of Directors' Meeting

Upon receipt of its federal charter, the board will hold its first meeting as a federal credit union. At this meeting, the board will transact such business as is necessary to complete the conversion as approved and to operate the credit union in accordance with the requirements of the Federal Credit Union Act and NCUA Rules and Regulations. Actions to be taken at this meeting include:

- change of the credit union's name on all records, accounts, investments and other documents evidencing assets or liabilities of the credit union;
- changes to the credit union's books and records:
 - As of the commencement of business, the accounting system, records, and forms must conform to the standards established by NCUA;
 - New journal and cash record and general ledger records should be set up. The general ledger accounts for the state credit union will be posted through the effective date of the conversion, and the new balances will be transferred to the new general ledger accounts of the federal credit union;
 - The income and expense accounts of the state credit union will not be closed unless the conversion is at the close of an accounting period or is required by the state regulator; and
 - The individual share and loan ledger accounts used by the state credit union may continue to be used.

The federal credit union's name will be properly reflected on these accounts.

II.E.4 -- Reports to NCUA

Within 10 business days after commencement of operations, the recently converted federal credit union must submit to the regional director the following:

- Report of Officials (NCUA 4501).
- Financial and Statistical Reports, (Forms FCU 109A, 109B, and 109F, or their equivalent) as of the commencement of business of the federal credit union.

NCUA-FM - III -- CONVERSION OF A FEDERAL CREDIT UNION TO A STATE CREDIT UNION 7/94

NCUA-FM - III.A -- General Requirements 7/94

Any federal credit union may apply to convert to a state credit union. In order to do so, it must:

- Notify NCUA prior to commencing the process to convert to a state charter and state the reason(s) for the conversion;
- Comply with the requirements of Section 125 of the Federal Credit Union Act that enable it to convert to a state credit union and to cease being a federal credit union; and
- Comply with applicable state law and the requirements of the state regulator.

Particular attention should be given to answering the question on the reasons for conversion. These reasons should be stated in specific terms, not as generalities.

NCUA-FM - III.B -- Special Provisions Regarding Federal Share Insurance 7/94

If the federal credit union wants to continue federal share insurance after the conversion to a state credit union, it must submit an Application for Insurance of Accounts (NCUA 9600) to the regional director at the time it requests approval of the conversion proposal. The regional director has the authority to approve or disapprove the Application.

If the converting federal credit union does not want to continue federal share insurance or if its application for continued insurance is denied, insurance will cease in accordance with the provisions of Section 206 of the Federal Credit Union Act.

If, upon its conversion to a state credit union, the federal credit union will be terminating its federal share insurance or converting from federal to non federal share insurance, it must comply with the membership notice and voting procedures set forth in Section 206 of the Federal Credit Union Act and Part 708 of NCUA's Rules and Regulations.

Where the state credit union will be non federally insured, federal insurance ceases on the effective date of the charter conversion. If it will be otherwise uninsured, then federal insurance will cease 1 year after the date of conversion subject to the restrictions in Section 206(d)(1) of the Federal Credit Union Act. In either case, the state credit union will be entitled to a refund of the federal credit union's NCUSIF capitalization deposit and any unused portion of the federal insurance premium after the final date on which any of its shares are federally insured.

The NCUA Board reserves the right to delay the refund of the capitalization deposit for up to 1 year if it determines that payment would jeopardize the NCUSIF.

NCUA-FM - III.C -- Submission of Conversion Proposal to NCUA 7/94

Upon approval of a proposition for conversion by a majority vote of the board of directors at a meeting held in accordance with the federal credit union's bylaws, the conversion proposal will be submitted to the regional director and will include:

- a current financial report;
- a current delinquent loan schedule;
- an explanation and appropriate documents relative to any changes in insurance of member accounts;
- a resolution of the board of directors;
- a proposed Notice of Special Meeting of the Members (NCUA 4221);

- a copy of the ballot to be sent to members (NCUA 4506);
- evidence that the state regulator is in agreement with the conversion proposal; and
- a statement of reasons supporting the request to convert.

NCUA-FM - III.D -- Approval of Proposal to Convert 7/94

III.D.1 -- Review by the Regional Director

The proposal will be reviewed to determine that it is complete and is in compliance with Section 125 of the Federal Credit Union Act. The regional director may make further investigation into the proposal and require the submission of additional information to support the request.

III.D.2 -- Conditions to the Approval

The regional director will indicate any special conditions that the credit union must meet in order to proceed with the conversion.

III.D.3 -- Approval by the Regional Director

The proposal will be approved by the regional director if it is in compliance with Section 125 and, in the case where the state credit union will no longer be federally insured, the notice and voting requirements of Section 206 of the Federal Credit Union Act.

III.D.4 -- Notification

The regional director will notify both the credit union and the state regulator of the decision on the proposal.

NCUA-FM - III.E -- Approval of Proposal by Members 7/94

Upon approval of the proposal by the regional director, the following actions will be taken by the board of directors:

- The proposal must be submitted to the members for approval and a date set for a vote on the proposal. The proposal may be acted on at the annual meeting, at a special meeting for that purpose, or by written ballot to be filed by the date set for the vote.
- Members must be given advance notice (NCUA 4221) of the meeting at which the proposal is to be submitted in accordance with the provisions of the Federal Credit Union Bylaws (Article V). The notice shall:
 - Specify the purpose, time and place of the meeting; Include a brief and accurate statement of the reasons for and against the proposed conversion, including any effects it could have upon share holdings, insurance of member accounts, and the policies and practices of the credit union;
 - Include a brief and accurate statement of the reasons for and against the proposed conversion, including any effects it could have upon share holdings, insurance of member accounts, and the policies and practices of the credit union.
 - Inform the members that they have the right to vote on the proposal at the meeting, or by written ballot to be filed not later than the date and time announced for the annual meeting, or at the special meeting called for that purpose;
 - Be accompanied by a Ballot for Conversion Proposal (NCUA 4506); and

- State in bold face type that the issue will be decided by a majority of members who vote.
- A copy of the notice of the meeting shall be delivered to the regional director at the same time that it is delivered to the members.
- The proposed conversion must be approved by a majority of all of the members who vote on the proposal, a quorum being present, in order for the credit union to proceed further with the proposition. Ballots cast by members who did not attend the meeting but who submitted their ballots in accordance with instructions above will be counted with votes cast at the meeting. In order to have a suitable record of the vote, the voting at the meeting should be by written ballot as well.
- The board of directors shall, within 10 days, certify the results of the membership vote to the regional director. The statement shall be verified by affidavits of the Chief Executive Officer and the Recording Officer on NCUA 4505.

NCUA-FM - III.F -- Compliance with State Laws 7/94

If the proposition for conversion is approved by a majority of all members who voted, the board of directors should then:

- ensure that all requirements of state law and the state regulator have been accommodated;
- ensure that the state charter or the license has been received within 90 days from the date the members approved the proposal to convert; and
- ensure that the regional director is kept informed as to progress toward conversion and of any material delay or of substantial difficulties which may be encountered.

If the conversion cannot be completed within the 90-day period, the regional director should be informed of the reasons for the delay.

NCUA-FM - III.G -- Completion of Conversion 7/94

In order for the conversion to be completed, the following steps are necessary:

- The board of directors will submit a copy of the state charter to the regional director within 10 days of its receipt. This will be accompanied by the federal charter and the federal insurance certificate. A copy of the financial reports (FCU 109A and 109B) as of the preceding month-end should be submitted at this time.
- The regional director will notify the credit union and the state regulator in writing of the receipt of evidence that the credit union has been authorized to operate as a state credit union.
- The credit union shall cease to be a federal credit union as of the effective date of the state charter.
- If the regional director finds a material deviation from the provisions that would invalidate any steps taken in the conversion, the credit union and the state regulator shall be promptly notified in writing. This notice may be either before or after the copy of the state charter is filed with the regional director. The notice will inform the credit union as to the nature of the adverse findings. The conversion will not be effected and

completed until the improper actions and steps have been corrected.

- Upon ceasing to be a federal credit union, the credit union shall no longer be subject to any of the provisions of the Federal Credit Union Act, except as may apply if federal share insurance coverage is continued. The successor state credit union shall be immediately vested with all of the assets and shall continue to be responsible for all of the obligations of the federal credit union to the same extent as though the conversion had not taken place. Operation of the credit union from this point will be in accordance with the requirements of state law and the state regulator.
- If the regional director is satisfied that the conversion has been accomplished in accordance with the approved proposal, the federal charter will be canceled.
- There is no federal requirement for closing the records of the federal credit union at the time of conversion or for the manner in which the records shall be maintained thereafter. The converting credit union is advised to contact the state regulator for applicable state requirements. The credit union shall neither use the words "Federal Credit Union" in its name nor represent itself in any manner as being a federal credit union.
- If the state credit union is to be federally insured, the regional director will issue a new insurance certificate.

NCUA-FM - APPENDIX A

GLOSSARY 7/94

These definitions apply only for use with this Manual. Definitions are not intended to be all inclusive or comprehensive. This Manual, the Federal Credit Union Act, and NCUA Rules and Regulations as well as state laws may be used for further reference.

Appeal - The right of a credit union or charter applicant to request reconsideration of an unfavorable NCUA decision to a higher authority.

Associational common bond - Association resulting from membership in an organization, participation in whose activities develops common loyalties, mutual benefits and mutual interests. The association should hold regular meetings and sponsor other activities that provide for contact among members.

Associational credit union - A credit union whose field of membership consists primarily of persons who are members of one or more related associational groups.

Business plan - Plan submitted by a charter applicant or existing federal credit union addressing the economic viability of a proposed charter or field of membership addition.

Charter - The document which authorizes a group or combination of groups to operate as a credit union and defines the fundamental limits of its operating authority, generally including the persons the credit union is permitted to accept for membership. Charters are issued by the National Credit Union Administration for federal credit unions and by the designated state chartering authority for credit unions organized under the laws of that state.

Common bond - The characteristic or combination of characteristics which distinguishes a particular group of persons from the general public. There are only three common bonds which can serve as a basis for a group's forming or being included in a federal credit union: employment by the same person or entity or group of entities ("occupational common bond"), membership in the same association ("associational common bond"), and residence, employment, or religious affiliation in the same geographic area ("community common bond").

Community common bond - Residence or employment of persons and businesses and other legal entities located within the same well-defined neighborhood, community or rural district.

Community credit union - A credit union whose field of membership consists of persons who live or work in the same well-defined neighborhood, community, or rural district.

Conversion - The process of changing from a federal to a state or state to federal credit union charter.

Credit union - A member-owned, not-for-profit cooperative financial institution formed to permit those in the field of membership specified in the charter to save, borrow, and obtain related financial services. Federal credit unions are chartered as corporations pursuant to the Federal Credit Union Act.

Economic viability - An overall evaluation of the credit union's or charter applicant's ability to operate successfully.

National Credit Union Administration

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Emergency merger - Pursuant to Section 205(h) of the Federal Credit Union Act, authority of NCUA to merge two credit unions without regard to field of membership policy.

Exclusionary clause - A limitation, written in a credit union's charter, which precludes the credit union from serving a portion of a group otherwise included in its field of membership. Exclusionary clauses are used to prevent certain overlaps of fields of membership between credit unions.

Federal share insurance - Insurance coverage provided by the National Credit Union Share Insurance Fund and administered by the National Credit Union Administration. Coverage is provided for qualified accounts in all federal credit unions and participating state credit unions.

Field of membership - The persons (persons may include organizations and other legal entities) a credit union is permitted to accept for membership. A federal credit union's field of membership, set forth in Section 5 of its charter, may be made up entirely of a single group, related groups with one common bond, or of unrelated groups each having its own common bond.

Letter of Understanding and Agreement - Agreement between NCUA and federal credit union officials not to engage in certain activities and/or to establish reasonable operational goals. These are normally entered into with new charter applicants, and occasionally with credit unions granted significant charter amendments and are for a limited time.

Merger - Absorption by one credit union of all of the assets, liabilities and equity of another credit union. Mergers must be approved by the National Credit Union Administration and by the appropriate state regulator whenever a state credit union is involved.

Multiple group credit union - A credit union whose field of membership consists of groups of persons, each group with its own common bond. The groups may be occupational, associational, or a combination thereof and do not need to share a common bond or be in any way related to one another.

Occupational common bond - Employment by the same entity or related entities.

"Employment" includes long term contractual arrangements which are the practical equivalent of regular employment.

Occupational credit union - A credit union whose field of membership consists primarily of persons employed in the same entity or related entities.

Operational area - The region which, as determined by NCUA in its discretion, may reasonably be served by one of a credit union's service facilities.

Overlap - The situation which results when a group is eligible for membership in more than one credit union.

Potential membership - Persons eligible to become primary members of a federal credit union.

Primary members - Members sharing the basic occupational, associational or community affinity to the field of membership.

Purchase and assumption - Purchase of all or a part of the assets of and assumption of all or a part of the liabilities of one credit union by

another credit union. The purchased and assumed credit union must first be placed into involuntary liquidation.

Select group - An occupational or associational group with its own common bond.

Secondary or derivative members - Members included in the field of membership by virtue of their close relationship to a common bond group (e.g., immediate family members, employees of the credit union, etc.).

Service facility - A place where, as determined by NCUA in its sole discretion: (1) shares are accepted for members' accounts; (2) loan applications are accepted or loans are disbursed; (3) a member can deal directly with a credit union representative; and (4) the service provided is clearly associated with that particular credit union. An automated teller machine or similar device is not a federal credit union service facility. Similarly, a branch or service center shared by a number of credit unions is not a service facility for purposes of this definition.

Service status report - Periodic written statements made by federal credit unions to NCUA summarizing the results of efforts to bring service to the employees or members of select groups.

Subscribers - For a federal credit union, at least seven individuals who sign the charter application and pledge at least one share.

NCUA-FM - APPENDIX B

LETTER OF UNDERSTANDING AND AGREEMENT 7/94

To the Board of Directors and Other Officials

_____ Federal Credit Union

Since the purposes of credit unions are to promote thrift and to make funds available for loans to credit union members for provident and productive purposes, and since newly chartered credit unions do not generally have sufficient reserves to cover large losses on loans or meet unduly large liquidity requirements, Federal insurance coverage of member accounts under the National Credit Union Share Insurance Fund will be granted to the above named credit union subject to the conditions listed in this Letter of Understanding and Agreement and in the Organization Certificate and Application and Agreements for Insurance of Accounts. These terms are listed below and are subject to acceptance by authorized credit union officials.

1. The credit union will refrain from soliciting or accepting brokered fund deposits from any source without the prior written approval of the Regional Director.
2. The credit union will refrain from the making of large loans, that is, loans in excess of 5 percent of unimpaired capital and surplus, to any one member or group of members without the prior written approval of the Regional Director.
3. The credit union will not establish or invest in a Credit Union Service Organization (CUSO) without the prior written approval of the Regional Director.
4. The credit union will not enter into any insurance programs whereby the credit union member finances the payment of insurance premiums through loans from the credit union.
5. Any special insurance plan/program, that is, insurance other than usual and normal surety bonding or casualty or liability or loan protection and life savings insurance coverage, which the credit union officials intend to undertake, will be submitted to the Regional Director of the National Credit Union Administration for written approval prior to the officials committing the credit union thereto.
6. The credit union will prepare and mail to the district examiner financial and statistical reports as required by the Federal Credit Union Act and Bylaws by the 20th of each month following that for which the report is prepared.
7. As the credit union's officials gain experience and the credit union achieves target levels of growth and profitability, the above terms and conditions may be renegotiated by the two parties.

We, the undersigned officials of the _____ Federal Credit Union, as authorized by the board of directors, acknowledge receipt of and agree to the attached Letter of Understanding and Agreement dated _____ 19 _____ .

This Letter of Understanding and Agreement has been voluntarily entered into with the National Credit Union Administration. We agree to comply with all terms and conditions expressed in this Letter of Understanding and Agreement.

National Credit Union Administration

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Should the NCUA Board determine that these terms and conditions have not been complied with or that the board of directors or other officials have not conducted the affairs of the credit union in a sound and prudent manner, the NCUA Board may terminate insurance coverage of the credit union. If actions by the officials, in violation of this Letter of Understanding and Agreement, cause the credit union to become insolvent, the officials assume such personal liability as may result from their actions.

The term of this Letter of Understanding and Agreement shall be for the period of at least 24 months from the date the credit union is insured. This Letter of Understanding and Agreement may, at the option of the Regional Director, be extended for an additional 24 months at the end of the initial term of this agreement.

Dated this _____ day of _____ 19 _____ .

NATIONAL CREDIT UNION ADMINISTRATION BOARD

ON BEHALF OF THE NATIONAL CREDIT UNION SHARE INSURANCE FUND

Regional Director

_____ Federal Credit Union

By:

Chief Executive Officer Date

Chief Financial Officer Date

Secretary Date

NCUA-FM - APPENDIX C

NCUA OFFICES 7/94

CENTRAL OFFICE

1775 Duke Street
Alexandria, VA 22314-3428
Commercial: 703-518-6300

REGION I - ALBANY

9 Washington Square Washington
Avenue Extension
Albany, NY 12205-5512

Commercial: 518-464-4180
FAX: 518-464-4195
Connecticut Maine Massachusetts
New Hampshire
New York Rhode Island Vermont

REGION II - CAPITAL

1775 Duke Street, Suite 4206
Alexandria, VA 22314-3437

Commercial: 703-838-0401
FAX: 703-838-0571
Delaware District of Columbia
Maryland New Jersey
Pennsylvania Virginia West
Virginia

REGION III - ATLANTA

7000 Central Parkway, Suite 1600
Atlanta, GA 30328-4598

Commercial: 404-396-4042
FAX: 404-698-8211
Alabama Arkansas Florida Georgia
Kentucky Louisiana Mississippi
North Carolina
Puerto Rico South Carolina
Tennessee Virgin Islands

REGION IV - CHICAGO

4225 Naperville Road, Suite 125
Lisle, IL 60532-3658

Commercial: 708-245-1000
FAX: 708-245-1016
Illinois Indiana Michigan
Missouri
Ohio Wisconsin

REGION V - AUSTIN

4807 Spicewood Springs Road,
Suite 5200
Austin, TX 78759-8490

Commercial: 512-482-4500
FAX: 512-482-4511
Arizona Colorado Iowa Kansas
Minnesota Nebraska New Mexico
North Dakota
Oklahoma South Dakota Texas Utah
Wyoming

REGION VI - PACIFIC

2300 Clayton Road, Suite 1350
Concord, CA 94520-2407

Commercial: 510-825-6125
FAX: 510-486-3729
Alaska American Samoa California
Guam
Hawaii Idaho Montana Nevada
Oregon Washington

National Credit Union Administration

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NCUA-FM - APPENDIX D -- NCUA FORMS 7/94

NCUA 4000 -- Conversion of State Charter to a Federal Charter -- FCU
Investigation Report

NCUA 4001 -- FCU Investigation Report

NCUA 4008 -- Charter

NCUA 4009 -- Approval of Organization Certificate & Certification of
Insurance

NCUA 4012 -- Report of Official & Agreement to Serve

NCUA 4015 -- Application for Field of Membership Amendment

NCUA 4016 -- Streamlined Expansion Procedure (SEP) Control Log

NCUA 4221 -- Notice of Meeting of Members

NCUA 4401 -- Application to Convert from a State Credit Union to an FCU

NCUA 4505 -- Affidavit

NCUA 4506 -- Ballot for Conversion Proposal

NCUA 9500 -- Application and Agreement for Insurance of Accounts

NCUA 9501 -- Certification of Resolutions

NCUA 9600 -- Information to be Provided in Support of the Application
of a State Credit Union for Insurance of Accounts

Conversion of State Charter to Federal Charter
FEDERAL CREDIT UNION INVESTIGATION REPORT
 (Note of Organizer)

This report must be filled in completely and submitted with the other completed forms listed in Chapter 3, page 3-2 under II. B "Submission of Conversion Proposal to NCUA".

A. INFORMATION FOR CHARTER AND BYLAWS

1. Proposed Name _____ Federal Credit Union
 Second choice of name _____ Federal Credit Union
2. Contact _____ Bus. Tel. No./Area Code _____
 Person _____ Res. Tel. No./Area Code _____

3. The credit union will maintain its office at _____

 (City) _____ (County) _____ (State) _____ (Zip) _____
4. Permanent mailing address of credit union _____

5. Define proposed field of membership (Attach a copy of current state charter field of membership) _____

6. The board will have (an odd number, 5 to 15) _____ members; the credit committee (an odd number, 3 to 7) _____ members; the supervisory committee (3 to 5) _____ members. Each official must complete a Report of Official and Agreement to Serve (NCUA 4012) which is to be submitted with this investigation report.

B. CHARACTER AND FITNESS OF SUBSCRIBERS
 (Please type or print)

7. List of the subscribers who have signed the organization certificate (7 not more than 10 persona). Names should be IDENTICAL to signatures on the organization certificate (NCUA 4008). Each subscriber listed below has subscribed to at least one share in accordance with Section 103 of the Federal Credit Union Act:

<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>
<i>Name</i>	<i>Address</i>	
<i>Occupation</i>		<i>Years of Membership</i>

ANY ADDITIONAL COMMENTS OR INFORMATION THAT IS DEEMED PERTINENT OR HELPFUL IN GIVING CONSIDERATION TO THIS APPLICATION SHOULD BE INCLUDED AS AN ATTACHMENT.

The undersigned certifies that to the best of his/her knowledge and belief the above information is true and correct.
 I do (do not) recommend that a charter be granted to this group.
 Signature _____, Organizer
 Organizer's Address _____

INSTRUCTIONS

A. INFORMATION FOR CHARTERS AND BYLAWS

The subscriber should select a name for the proposed credit union, desirably a short one. Although it need not fully describe the group, the name should not be misleading. The last three words in the name must be "Federal Credit Union." Since the name selected should not duplicate exactly the name of an existing credit union, item 1 provides space for a second choice.

The territory of operations of a Federal credit union is described in the field of membership, item 5. The principal office of the credit union will usually be maintained at a location described in the field of membership.

The proposed field of membership should be defined so clearly that it leaves no room for any doubt as to whom the credit union is to serve or the area in which it is to operate. Corporations and other organizations referred to in the definition of the field of membership should be designated by the exact names rather than by some local or popular contraction of these names. Any segment of a larger organization should be identified with the parent. The field of membership for each type of common bond and samples are discussed in detail in Chapter 1 of the *"Chartering and Field of Membership Manual."*

With the guidance of the organizer, the subscribers to the Organization Certificate decide on the number of directors and credit committee members. The board and credit committee must be composed of an odd number of members. The supervisory committee is appointed by the board of directors.

B. CHARACTER AND FITNESS OF SUBSCRIBERS

The names and addresses of the subscribers should be recorded legibly and completely in item 7 of this report. It is from this information that the Administration prepares section 3 of the charter. The names of the subscribers must be **IDENTICAL** to their signatures on the Organization Certificate.

C. SUBMITTAL OF CHARTER APPLICATION

In addition to this Investigation Report, the following should be submitted to the appropriate regional director of NCUA:

1. Organization Certificate, NCUA 4008- two notarized originals. At least seven, **but no more than ten persons**, must sign both copies of the organization certificate. Signatures on both copies must be identical. The person administering the oath must not be one of the subscribers. The oath on both copies of the organization certificate must be executed and show the notary's seal and date the commission expires as required by State law;
2. Report of Official and Agreement to Serve, NCUA 4012- one original for each board member, credit committee member, and supervisory committee member;
3. Application and Agreements for Insurance of Accounts, NCUA 9500- one original;
4. Business Plan - refer to Chapter 1 of the Chartering and Field of Membership Manual for a discussion of the components of an acceptable business plan.
5. Certificate of Resolution, NCUA 9501 - one original.

FEDERAL CREDIT UNION INVESTIGATION REPORT

(Note to Organizer) This report form must be filled in completely and submitted with the other completed forms listed on page 8 under "Submittal of Charter Application." Please refer to page 7 for instructions in completing this report.

A. INFORMATION FOR CHARTER AND BYLAWS

1. Proposed name _____ Federal Credit Union
Second choice _____ Federal Credit Union

2. Contact Person _____ Business Tel. _____
Residence Tel. _____
Address _____

3. The credit union will maintain its offices at _____
(City, State, County, Zip Code)

3a. Proposed permanent mailing address of credit union _____

4. Define proposed field of membership _____

5. The board will have (an odd number, 5 to 15) _____ members; the credit committee will have (an odd number, 3 to 7) _____ members; the supervisory committee will have (3 to 5) _____ members. Each official must complete a Report of Official and Agreement to Serve (NCUA 4012) which is to be submitted with this investigation report.

B. ECONOMIC ADVISABILITY OF ORGANIZING PROPOSED CREDIT UNION

(Attach a separate sheet if space available is not adequate)

GENERAL INFORMATION

1. Potential membership _____

NOTE: Number of employees for occupational, active members for associational (or families for religious groups), or population per most recent census for community-type fields of membership.

2. Potential interest (survey results).

NOTE: Sample must consist of a minimum of 250 potential members. Copy of survey form(s) utilized should be attached.

Number of people surveyed _____

Number of people responding to survey _____

Number of people pledging an initial deposit _____

Total dollars pledged \$ _____

Number pledging systematic savings _____

Total dollars pledged (per month) \$ _____

3. Number of persons attending the charter-organization meeting _____

4. Are officials of the sponsor favorable toward the proposal to organize a credit union? _____

NOTE: Attach letters of support from company officials (occupational-type); association officials (associational-type); business, civic, or other community organizations (community-type).

For Paperwork Reduction Act Notice, see page 7.

5. What facilities and assistance, if any, will the sponsor provide?

- _____ Office Space (Describe)
- _____ Office Supplies
- _____ Payroll deductions
- _____ Funding for start-up costs, if so \$ _____
- _____ Other (Describe)

6. Is credit union service now available to any members of the group? _____

If so, explain the nature and approximate extent of overlapping of such service with the field of membership proposed in this application, i.e., employees who are labor union members eligible for membership in another credit union on an associational basis; labor union members who are eligible for credit union membership on an occupational basis; community residents who are eligible for credit union membership in occupational or associational credit unions located within the proposed boundaries. _____

7. What potential difficulties do you detect in the elected officials carrying out their management, responsibilities or in the FCU achieving its stated objectives? _____

NOTE TO ORGANIZER: The officials' projected goals for share growth must be recorded in the business plan.

8. What provisions have been made to overcome potential difficulties? _____

Dates of planned contacts by organizer to determine progress and to assist the group:

_____	_____	_____
(Date)	(Date)	(Date)

SPECIFIC INFORMATION - OCCUPATIONAL CHARTER APPLICANTS

9. How long has the sponsor company been in existence? _____

10. What was the highest number of employees during the past three years? _____ ; Lowest number during the past three years. _____ If a large variance, please explain, _____

11. Are there any contemplated changes in the corporate structure of the company? _____ If yes, explain _____

12. Have there been any significant changes in the corporate structure in the past three years? _____ . If yes, please explain .

13. Are there any negotiations now in progress between management and labor that could lead to work stop-pages? _____ . If yes, please explain _____

14. If the credit union cannot operate on the employer's prope~, explain how the credit union will be able to transact business effectively with the members. _____

15. If the employees to be served by the credit union work in more than one location or city, identify each location with the corresponding number of employees working at each. _____

16. Are there other employees of the company who are not being included in the proposed field of membership? _____ if so, give the number and location of the other employees and explain why a credit union is being proposed for this group only, _____

SPECIFIC INFORMATION - ASSOCIATIONAL CHARTER APPLICANTS

17. State the purpose and goals of the organization sponsoring this charter. _____

18. List the types of activities and their frequency, which the organization sponsors that provide contact among the members and from which common loyalties, mutual benefits, and mutual interests are developed. _____

19. In what year was the organization established? _____ Is it incorporated? _____ . Where is the headquarters located? _____

20. Give statistics as to trends in membership during the last five years. _____

21. What is the frequency of members' meetings? _____ . Average attendance _____ . Dues required _____

22. State the geographic territory where members reside. _____

23. Except for religious and labor union groups, obtain a copy of the current bylaws, the constitution or articles of incorporation, and recent financial statements, i.e. balance sheet, and income and expense statement. Submit these documents with this application.

24. If the bylaws, constitution or articles of incorporation provides for more than one type of membership and if all classes of membership are to be included in the credit union's field of membership, provide justification for the inclusion of other than "regular" members. _____

25. For labor union group only, complete a through c:
a. State the number of labor union members at each place of employment. _____

b. State the total number of employees, whether union members or not, working at each place of employment. Give a breakdown of union versus nonunion employees. _____

c. What has been done toward organizing a credit union on an employee basis? Discuss fully. _____

SPECIFIC INFORMATION - COMMUNITY CHARTER APPLICANTS

26. List the factors or conditions which make this residential unit a logical group for credit union operation. _____

27. If the area to be served by the credit union is adjacent to any major metropolitan area, explain why it is not considered a part of such metropolitan area. _____

28. Which business, civic, or other community organizations support the proposed credit union? List and show the support pledged including the names and titles of officials who were contacted. Obtain and attach letters of support from these individuals. _____

29. Provide a map which clearly outlines the credit union's proposed community boundaries.

30. Are there currently any state or federal credit unions operating within the proposed community boundaries? _____
If so, provide a list of the credit union's names and mailing addresses.

31. List any other financial institutions, i.e. banks, savings and loan associations, etc., located within the proposed community boundaries.

C. CHARACTER AND FITNESS OF SUBSCRIBERS

1. List of subscribers who have signed the organization certificate (7 not more than 10 persons). Names should be IDENTICAL to signature on the organization certificate (NCUA 4008), Each subscriber listed below has subscribed to at least one share in accordance with Section 103 of the Federal Credit Union Act:

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

Name _____
Address _____
Occupation _____
Years of Residence _____

2. Are all of the subscribers within the field of membership? _____ . Do they appear to be fairly representative of the group described in the definition of the field of membership? _____ . If not, explain _____

3. Does your investigation indicate that the subscribers are persons of good character? _____ . If not, explain _____

4. From your investigation, is it your judgment that the directors and committee members are persons of good character, and that they have the ability and determination to operate a credit union satisfactorily? _____ If not, explain _____

5. Does it appear that there are any factions within the group which may render smooth and efficient credit union operations difficult? _____ . If so, explain _____

6. Is there any indication that the proposed credit union would be used for selfish gain by any person or group of persons within the group to be served? _____ .

7. Is an application for a State charter now pending? _____ .

8. Has the group ever had a credit union? _____ . If so, when did it liquidate or merge? _____

ANY ADDITIONAL COMMENTS OR INFORMATION THAT IS DEEMED PERTINENT OR HELPFUL IN GIVING CONSIDERATION TO THIS APPLICATION SHOULD BE INCLUDED AS AN ATTACHMENT.

The undersigned certifies that to the best of their knowledge and belief the above information is true and correct,

I do (do not) recommend that a charter be granted to this group.

Signature _____ , Organizer

Organizer's Address _____

Telephone No. _____ Date _____

INSTRUCTIONS

A. INFORMATION FOR CHARTER AND BYLAWS

The subscriber should select a name for the proposed credit union, desirably a short one. Although it need not fully describe the group, the name should not be misleading. The last three words in the name must be "Federal Credit Union." Since the name selected should not duplicate exactly the name of an existing credit union, item 1 provides space for a second choice.

The territory of operations of a Federal credit union is described in the field of membership, item 4. The principal office of the credit union will usually be maintained at a location described in the field of membership.

The proposed field of membership should be defined so clearly that it leaves no room for any doubt as to whom the credit union is to serve or the area in which it is to operate. Corporations and other organizations referred to in the definition of the field of membership should be designated by the exact names rather than by some local or popular contraction of these names. Any segment of a larger organization should be identified with the parent. The field of membership for each type of common bond and samples are discussed in detail in Chapter 1 of the "*Chartering and Field of Membership Manual*".

With the guidance of the organizer, the subscribers to the Organization Certificate decide on the number of directors and credit committee members. The board and credit committee must be composed of an odd number of members. The supervisory committee is appointed by the board of directors.

B. ECONOMIC ADVISABILITY OF ORGANIZING PROPOSED CREDIT UNION

This section of the report contains information on:

1. The size and compactness of the group;
2. The nature of the common bond;
3. The attitude of the:
 - a. (if occupational based field of membership) management of the sponsor organization;
 - b. (if associational based field of membership) officers of the sponsor association;
 - c. (if community based field of membership) community leaders and/or *officers* of prominent associations or organizations in the area to be served;
4. The facilities available for credit union operations;
5. The availability of existing credit union service, and
6. Other facts to support a potential for successful operation.

This section of the report should contain information on the management, association or civic leaders contacted that intend to support or utilize the credit union, In those cases where certain persons in the area are opposed to the credit union, the organizer should point out the factors which indicate that the group will be able to overcome this handicap.

Clerical assistance at least during the first few months of operation, payroll deductions, and office space are desirable aids in the development of a credit union. Plans for overcoming any obstacles to effective operation such as lack of office space or scattered field of membership should be described briefly. If more space is needed than that provided, a separate sheet may be used.

C. CHARACTER AND FITNESS OF SUBSCRIBERS

The names and addresses of the subscribers should be recorded legibly and completely in item C. 1. of this report. It is from this information that the Administration prepares section 3 of the charter. The names of the subscribers must be **IDENTICAL** to their signatures on the Organization Certificate.

D. SUBMITTAL OF CHARTER APPLICATION

In addition to this Investigation Report, the following should be submitted to the appropriate regional director of NCUA:

- 1, Organization Certificate, NCUA 4008- two notarized originals. At least seven, *but no more than ten persons*, must sign both copies of the organization certificate. Signatures on both copies must be identical. The person administering the oath must not be one of the subscribers. The oath on both copies of the organization certificate must be executed and show the notary's seal and date the commission expires as required by State law;
2. Report of Official and Agreement to Serve, NCUA 4012- one original for each board member, credit committee member, and supervisory committee member;
3. Application and Agreements for Insurance of Accounts, NCUA 9500- one original;
4. Business Plan - refer to Chapter 1 of the Chartering and Field of Membership Manual for a discussion of the components of an acceptable business plan.
5. Certificate of Resolution, NCUA 9501- one original.

NATIONAL CREDIT UNION ADMINISTRATION

FEDERAL CREDIT UNION

(A corporation chartered under
the laws of the United States)

CHARTER NO. _____

ORGANIZATION CERTIFICATE

_____ FEDERAL CREDIT UNION

Charter No. _____

TO NATIONAL CREDIT UNION ADMINISTRATION:

We, the undersigned, do hereby associate ourselves as a Federal credit union for the purposes indicated in and in accordance with the provisions of the Federal Credit Union Act, (12 U.S.C. 1751 et seq.). We hereby request approval of this organization certificate; we hereby apply for insurance of member accounts; we agree to comply with the requirements of said Act, with the terms of this organization certificate and with all laws, rules, and regulations now or hereafter applicable to Federal credit unions,

(1) The name of this credit union shall be _____

_____ **Federal Credit Union.**

(2) This credit union will maintain its office and will operate in the territory described in the field of membership.

(3) The names and addresses of the subscribers to this certificate and the number of shares subscribed by each are as follows:

NAME	ADDRESS	SHARES
-------------	----------------	---------------

(4) The par value of the shares of this credit union will be as stated in the bylaws.

(5) The field of membership shall be limited to those having the following common bond:

(6) The term of this credit union's existence shall be perpetual: Provided, however, that upon the finding that this credit union is bankrupt or insolvent or has violated any provision of this organization certificate, of the bylaws, of the Federal Credit Union Act including any amendments thereto or thereof, or of any regulations issued thereunder, this organization certificate may be suspended or revoked under the provisions of Section 120 (b) of the Federal Credit Union Act.

(7) This certificate is made to enable the undersigned to avail themselves of the advantages of said Act.

(8) The management of this credit union, the conduct of its affairs, and the powers, duties, and privileges of its directors, officers, committees and membership shall be set forth in the approved bylaws and any approved amendments thereto or thereof.

IN WITNESS WHEREOF we¹ have hereunto subscribed our names this
day of _____, 19__ .

Subscribed before me, an officer competent to administer oaths, at _____
CITY/STATE

this _____ day of _____,
19__ .

Signed _____
Title _____
(Notary public or other competent officer)

¹At least seven signers none of whom should administer the oath

**APPROVAL OF ORGANIZATION CERTIFICATE
AND CERTIFICATION OF INSURANCE**

Pursuant to the provisions of the Federal Credit Union Act (12 U.S.C. 1751 et. seq.), the foregoing organization certificate and insurance of member accounts of _____
_____ Federal Credit Union are approved
this _____ day of _____, 19_____.

CHAIRMAN
NATIONAL CREDIT UNION ADMINISTRATION

REPORT OF OFFICIAL AND AGREEMENT TO SERVE

TO: NATIONAL CREDIT UNION ADMINISTRATION

(Type or Print)

Proposed _____ Federal Credit Union

Mr. Ms.

Title of Newly Elected/Appointed Credit Union Position _____

Name

Mrs. Miss

Last First Middle

Maiden Name (If Different From Above) _____

Address (Res.) _____
Street City State Zip Code

Phone + Area Code _____
(Residence) (Business)

Place of Birth _____ Date of Birth _____
City/State Social Security Number

Employer _____

Type of Business _____

Number of years with present employer _____ Your position title _____

Education background (circle highest grade completed)

1 2 3 4 5 6 7 8 9 1 0 1 1 1 2
(Grade and High School)

1 2 3 4)
(College)

MAJOR FIELD OF STUDY _____

Other training or experience _____

Are you willing to accept the position of trust for which you have been selected and to remain in office until such time as a qualified successor is found? Yes NO

Have you been informed as to the general duties and responsibilities of an official of the proposed Federal credit union and are you willing to devote the time necessary to familiarize yourself with and to perform your duties? Yes NO

Estimated number of hours per month you will be able to donate as a volunteer _____

IF THE ANSWER IS YES TO THE FOLLOWING QUESTION, PLEASE PROVIDE INFORMATION AS INSTRUCTED ON REVERSE SIDE OF THIS FORM:

Have you ever been convicted of any CRIMINAL OFFENSE involving dishonesty or a breach of trust? Yes No

To facilitate the process of obtaining a credit and background check, please provide the following:

- 1. Any other names which you have used _____, and,
- 2. Previous address, (if your address changed over the past 2 years). _____
- 3. Name of Spouse _____

READ THE FOLLOWING CAREFULLY BEFORE SIGNING

CERTIFICATION AND AGREEMENT TO SERVE:

I certify that the information provided on this form is true and correct. Further, I, the undersigned, having been duly designated to occupy the position(s) indicated above, do hereby agree to serve in the above-stated office(s) of this proposed credit union until the first annual meeting held in accordance with the Federal Credit Union Act and the bylaws of this credit union and until the election of my successor(s). I further pledge to carry out the duties and responsibilities commensurate with said office(s) as promulgated by the Federal Credit Union Act and the bylaws of this credit union. I have read the Privacy Act Notice on the reverse side of this form.

Date Signature Witness

PRIVACY ACT NOTICE

The Privacy Act of 1974 (Public Law 93-579) requires that you be advised as to the legal authority, purpose and uses of the information solicited by this form. Pursuant to Sections 104 and 205(d) of the Federal Credit Union Act, the information in this form is requested for the purpose of completing the investigation required for a new Federal credit union. The information in this form will be primarily used in considering the soundness of the management for the proposed Federal credit union. However, this form may be disclosed to any of the following sources: a congressional office in response to your inquiry to that office; an appropriate Federal, state or local authority in the investigation or enforcement of a statute or regulation; or employees of a Federal agency for audit purposes. Failure to complete this form or omission of any item of information, except for disclosure of your social security number, may result in a delay in the process for chartering the proposed Federal credit union. In accordance with Section 792.36 of NCUA'S regulations, you are not required to furnish your social security number on this form. Your social security number, if voluntarily provided, will be used to more easily verify the information required by this form. No penalty will result to you as a management official or to the chartering of the proposed Federal credit union if you do not provide your social security number.

Further information needed if answer to CRIMINAL OFFENSE question on reverse side of form was YES:

CRIMINAL OFFENSE:

Nature of offense _____

Date of occurrence _____ Date of conviction _____

Sentence conferred _____

(Attach a separate sheet if space provided is not adequate)

CRIMINAL OFFENSE GUIDELINES

The Federal Credit Union Act, Subchapter II, section 205(d), requires that, "Except with the written consent of the Administrator, no person shall serve as director, officer, committee member, or employee of an insured credit union who has been convicted or who is hereafter convicted, of any criminal offense involving dishonesty or breach of trust." To assist the Administrator in making a determination of the fitness of a person who is selected to serve and who the organizer believes is qualified to serve as an official, the specific information above will need to be furnished,

If the Board believes that, in view of the facts presented and the date of the offense, they can give their consent to the appointment they will so advise that person in writing. If on the other hand, the Board believes after careful consideration that they cannot in good conscience give their written consent to the appointment they will contact the organizer and ask that another person be selected for the position. The person selected will have to complete a Report of Official and Agreement to Serve.

An indication of whether the bonding company would agree to provide coverage should be included if the person is to serve as treasurer. Bonding company agrees to provide coverage Yes No.

APPLICATION FOR FIELD OF MEMBERSHIP AMENDMENT

(Attach a separate application for each group included in your request for expansion.)

1. Name and address of credit union: _____

2. Name of group/association to be added: _____

(If Association, include Charter/Bylaws.)

Description of business:

Address: _____

3. Total number of potential employees/members to be added: _____

Sponsor's headquarters location: _____

If relevant, work and/or paid from location: also indicate the number of employees at each location:

4. Distance to nearest credit union service facility group has access to: _____

Address of the nearest service facility group has access to: _____

5. Is the group eligible for membership in any other credit union? NO ___ Yes ___

If yes, give the name and location of the other servicing credit union. Also include, if applicable, a letter of release from the overlapped credit union. _____

6. Attach a letter, on letterhead stationery if possible, from the group requesting credit union service. _____

The regional director may request other documentation appropriate to the situation. This may include current financial statements, branch office financial statements, or other data.

Other comments:

Name and title of credit union board-authorized representative

(e.g., Credit Union Manager/President/CEO-Please print or type)

Signature

(Date)

SEP CONTROL LOG

SEP charter amendment: _____

1 Certification orized iture)	Name and Location (City, ST) of Sponsor Group	Distance to Nearest CU Branch	Number of Employees/Primary Potential Members	

Control Page Number _____

The board of directors recommends that the members approve the proposal to convert to a State charter

The members' accounts will will not continue to be insured by the National Credit Union Share Insurance Fund.

Attached is your ballot. You are urged to bring your ballot to the meeting and to cast your vote after hearing the discussion of the proposal. If you cannot attend the meeting, you are urged to mark your vote, date and sign your ballot, have it postmarked no later than the date and the time announced for the meeting of the members, and mail it to the following address: _____

BY ORDER OF THE BOARD OF DIRECTORS

TITLE:
(CHIEF EXECUTIVE OFFICER)

TITLE:
(CHIEF RECORDING OFFICER)

Issued _____
(Date)

APPLICATION TO CONVERT FROM A STATE TO A FEDERAL CREDIT UNION

The _____ Credit Union of _____ (city), _____ (State), incorporated under the laws of the State of _____ on _____, 19____, by decision of its board of directors, hereby makes application to the National Credit Union Administration to convert to a Federal credit union.

1. Field of membership of State-chartered credit union. (Use exact wording of charter, articles of incorporation or bylaws, as amended to date.)

2. Is proposed Federal charter to cover same field of membership? Yes No If answer is "No," explain fully:

3. Standard financial and statistical reports as of _____, 19____, or comparable forms of reports, certified correct by the treasurer and verified by the affidavit of the president or vice-president, are attached.

4. A schedule of delinquent loans classified 2 to 6 months, 6 to 12 months, and 12 months and over delinquent is attached. (As a minimum, schedule should include for each delinquent loan: loan date, last payment date, unpaid balance, security, and comment on collectibility.)

5. The following policies on loans to members are currently in effect in this credit union:

a. Interest rates on loans: _____

b. Charges incident to making loans which are passed on to borrowers: _____

c. Maturity limits: _____

d. Unsecured loan limit: _____

e. Secured loan limit: _____

f. Types of security accepted: _____

g. Requirements of amortization (Repayment requirements): _____

6. Attached is a list of unsecured loans in excess of the amounts stipulated in the Act. (For each loan show account number, original amount, terms, and unpaid balance.)

7. Attached is a list of loans with maturities in excess of periods stipulated in the Act and the NCUA Rules and Regulations. (For each loan show account number, original amount, terms, unpaid balance, and security.)

8. Types of accounts which members are required or are permitted to maintain: Share Deposit Other (describe):

9. Describe any real estate owned by credit union, including a list of its current market value: _____

10. Describe and list any investments which are outside of the investment powers of Federal credit unions (Refer to Section 107(7), Federal Credit Union Act): _____

11. Names and locations of any depository institutions in which the credit union deposits its funds but which are beyond the purview of deposit powers authorized by Section 107(8) of the Federal Credit Union Act.

12. Describe any services rendered to or on behalf of members or of the public, other than accepting and maintaining accounts of members and making loans to members: _____

13. Describe what you propose to do about any policies, procedures, assets or liabilities which do not comply with the Federal Credit Union Act: _____

14. Give specific reasons as to why you desire to convert to a Federal credit union: _____

We hereby authorize the National Credit Union Administration to examine our books and our records and agree to pay an examination fee in accordance with Section 701.6 of the National Credit Union Administration Rules and Regulations.

We, the undersigned _____ Chief Executive Officer and
_____ Chief Financial Officer of the _____ Credit

Union of _____, State of _____ certify:
That we are the duly elected Chief Executive Officer and the Chief Financial Officer, respectively, of said credit union; that the statements made in this Application to Convert from a State to a Federal Credit Union and the schedules attached hereto are true, complete, and correct to the best of our knowledge and belief and are made in good faith.

TITLE:
(CHIEF EXECUTIVE OFFICER)

TITLE:
(CHIEF FINANCIAL OFFICER)

AFFIDAVIT

PROOF OF RESULTS OF MEMBERSHIP VOTE ON PROPOSED CONVERSION

We, the undersigned _____
president/vice president and _____
secretary of the _____ Federal Credit Union, hereby swear or affirm as
follows:

1. That the conversion proposal as set forth in the attached Notice of Meeting of the Members was fully explained to the members present at said meeting of members.

2. That on the date of the said meeting of members there were _____ members of this credit union qualified to vote; _____ members were present at said meeting; of those members present, _____ members voted in favor of the conversion and _____ members voted against the conversion; of those members not present at the meeting but who filed ballots, _____ members voted in favor of the conversion and _____ members voted against the conversion; and that, without duplication of the votes of any member, a total of _____ members voted in favor of the conversion and _____ members voted against the conversion.

3. That the action of the members of this credit union at said meeting is fully and completely recorded in the minutes of said meeting and all ballots cast by the members on the question of conversion, either at the meeting or by delivery to the credit union, are on file with the secretary of this credit union.

TITLE:
(CHIEF EXECUTIVE OFFICER)

TITLE:
(CHIEF RECORDING OFFICER)

Federal Credit Union

Subscribed before me, an officer competent to administer oaths, at _____

_____, this _____ day of _____, 19____

Signed _____

(SEAL)

Title _____
(Notary Public or other competent officer)

My Commission Expires _____, 19____.

BALLOT FOR CONVERSION PROPOSAL

I have read the notice concerning the meeting of the members of the _____ Federal Credit Union called for _____, 19____, to consider and to vote upon the following proposition:

“RESOLVED, That the _____ Federal Credit Union be converted to a credit union chartered under the laws of the State of _____, and operation under Federal Charter Number _____ be discontinued.

RESOLVED FURTHER, That the board of directors and the officers of this credit union be and are hereby authorized and directed to do all things necessary to effect and complete the conversion of this credit union from a Federal to a State-chartered credit union. ”

I hereby cast my vote on the proposition: (Place an X in the square opposite the appropriate statement.)

I vote for the conversion

I vote against the conversion

(Account Number)

(Signature of Member)

Date _____

APPLICATION AND AGREEMENTS FOR INSURANCE OF ACCOUNTS

Date

TO: The National Credit Union Administration Board (Board)

The proposed _____ Federal Credit Union,

(Mailing Address)

(City)

(State)

(Zip Code)

applies for insurance of its accounts as provided in Title II of the Federal Credit Union Act, and in consideration of the granting of insurance, hereby agrees:

1. To pay the reasonable cost of such examinations as the Board may deem necessary in connection with determining the eligibility of the application for insurance.
2. To permit and pay the reasonable cost of such examinations as in the judgment of the Board may from time to time be necessary for the protection of the fund and of other insured credit unions.
3. To permit the Board to have access to any information or report with respect to any examination made by or for any public regulatory authority and furnish such additional information with respect thereto as the Board may require.
4. To provide protection and indemnity against burglary, defalcation, and other similar insurable losses, of the type, in the form, and in an amount at least equal to that required by the laws under which the credit union is organized and operates.
5. To maintain such regular reserves as may be required by Section 116 of the Federal Credit Union Act.
6. To maintain such special reserves as the Board, by regulation or in special cases, may require for protecting the interest of members.
7. Not to issue or have outstanding any account or security the form of which, by regulation or in special cases, has not been approved by the Board.
8. To pay and maintain the capitalization deposit required by Title II of the Federal Credit Union Act.
9. To pay the premium charges for insurance imposed by Title II of the Federal Credit Union Act.
10. To comply with the requirements of Title II of the Federal Credit Union Act and of regulations prescribed by the Board pursuant thereto.
11. To permit the Board to have access to all records and information concerning the affairs of the credit union and to furnish such information pertinent thereto that the Board may require.
12. To comply with Title 18 of the United States Code and other pertinent Federal statutes as they may exist or may be hereafter promulgated or amended.

We, the undersigned, certify to the correctness of the information submitted. In support of this application the undersigned submit the Schedules described below:

Schedule No.

Title

We, the undersigned, further certify that to the best of our knowledge and belief no proposed officer, committee member, or employee of this credit union has been convicted of any criminal offense involving dishonesty or a breach of trust, except as noted in attachments to this application. We further agree to notify the Board if any proposed or future officer commits a criminal offense.

Chief Executive Officer

Chief Financial Officer

Note: A willfully false certification is a criminal offense. U.S. Code, Title 18. Sec. 1001.

CERTIFICATION OF RESOLUTIONS

_____ FEDERAL CREDIT UNION (PROPOSED)

We certify that we are the duly elected and qualified chief executive officer and recording officer of the above-named proposed Federal credit union and that at the charter-organization meeting the board of directors passed the following resolution and recorded it in its minutes:

“Be it resolved that this credit union apply to the National Credit Union Administration Board for insurance of its accounts as provided in Title II of the Federal Credit Union Act.

Be it further resolved that the president and treasurer be authorized and directed to execute the Application and Agreements for Insurance of Accounts as prescribed by the Board and any other papers and documents required in connection therewith; to pay all expenses and do all other things necessary or proper to secure and continue in force such insurance.”

Chief Executive Officer

Recording Officer, Board of Directors

**INFORMATION TO BE PROVIDED IN SUPPORT OF THE APPLICATION OF A STATE CHARTERED
CREDIT UNION FOR INSURANCE OF ACCOUNTS**

_____ credit union

1. Show below the location of the credit union's books and records.

(Street Address)

(City)

(state)

(zip)

(Telephone)

2. Show the date (month, day, year) in which the credit union was chartered. _____ 19__
3. Attach a copy of the credit union's field of membership as shown in the charter, articles of incorporation and/or bylaws, as amended to date. Please identify it as the first schedule in the consecutive number sequence, as discussed in the instructions. schedule No. _____
4. Potential membership (total number of persons who could be served including present members). _____
5. Describe type activity sponsor organization is engaged in. (See instructions pertaining to item No. 5.)

6. Does the credit union operate under standard bylaws provided by the state supervisory authority.

Yes No
(Stop) (Complete a.)

a. Attach a copy of the current official bylaws under which the credit union operated. Schedule No. _____

7. Is the credit union under any administrative restraints by the State Supervisory Authority?

Yes No
(Complete a.) (Stop)

a. Explain fully on an attached schedule. Schedule No. _____

8. Attach a copy of the latest State supervisory authority examination. Copies of any correspondence from the accountant's report if made in lieu of a State supervisory authority examination. Copies of any correspondence from the State supervisory authority which accompanied the examination report should also be included.

9. Attach copies of the Balance Sheet and of the Statement of Income and Expense (or Financial and Statistical Report) for the month preceding the date of this application and for the same month of the preceding year. schedule Nos. _____. (Identify current year statement with (a) after schedule no. and previous Year with(b).)

10. Reserves

a. Show below the requirements of the State law and/or your bylaws for transfer of earnings to reserves (either monthly or at the end of each accounting period).

11. Delinquent Loans and Charged-off Loans

a. Attach a copy of the delinquent loan list as of the month-end preceding the date of this application. See instructions pertaining to Item No. 11 a. on page 7. Schedule No. _____ .

b. List below the requested information on delinquent loans for the last four calendar quarters preceding the date of the application (March 31, June 30, September 30 and December 31). Also show total share and loan balances for all members for same period.

(a) *Other Delinquent Categories	(b) Delinquent Categories	Date _____	Date _____	Date _____	Date _____
	2 mos. to less than 6 mo.	\$	\$	\$	\$
	6 mos. to less than 12 mos.	\$	\$	\$	\$
	12 mos. and over	\$	\$	\$	\$
	Totals				
	Share Balances	\$	\$	\$	\$
	Loan Balances	\$	\$	\$	\$

*See instructions pertaining to Item No. 11 b.

c. List below the requested information on loans charged off during the last three years and the current year. List total of all reserves both revocable and irrevocable for the same period as (balance at year-end or current period).

	19 _____	19 _____	19 _____	Current Yr. to Date _____ 19 _____	*Totals Since Organization
Total Charged Off					
Total Recovered					
Net Charged Off					
Total of all Reserves					

*this information is available.

12. Does the credit union have any unrecorded or contingent liabilities (including pending law suits or civil actions)? Yes No
 (Complete a.) (Stop)
- a. List on a schedule the complete description of such liabilities, including amounts, status of the items, and a description of the circumstances creating the liabilities or contingent liabilities. Schedule No. _____
13. Do any asset accounts (other than loans to members, investments, and real estate) have actual values less than the book values shown on the Balance Sheet? Year No
 (complete a.) (stop)
- a. List on a separate schedule a description of such assets, showing at least the following information: account number, description of item, book value and actual value. Schedule No. _____
14. List below or on an attached schedule any investments or real estate as discussed in the instructions pertaining to Item No. 14. Schedule No. _____. Attach a copy of the credit union's current investment policies. Investments/Loans to Credit Union Service Organization (CUSO) should be listed separately on page 6.

<u>Description of Item</u>	<u>Current Market Value</u>	<u>Current Book Value</u>
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____

15. Individual Share and Loan Ledgers:
 a. Were the totals of the trial balance tapes of the individual share and loan ledgers in agreement with the balances of the respective general ledger control accounts as of the month-end preceding the date of this-application? Yes (stop) No (Complete b.)

b. What are the differences as of the month end preceding the date of this application?

	<u>Shares</u>	<u>Loans</u>
Balances in General Ledger	\$ _____	\$ _____
Totals of the trial balance of the individual ledgers	\$ _____	\$ _____
Differences	\$ _____	\$ _____

16. Supervisory Committee:
 a. What is the effective date of the last complete comprehensive annual audit performed by the supervisory committee? Effective Date _____
 (1) If the effective date of the annual audit is not within the last 18 months what is the supervisory committee's target date for completion of a comprehensive audit? Date _____
 b. Show the effective date of the supervisory committee's last controlled verification of all members' accounts: Effective Date _____
 (1) If all members' accounts have not been verified under controlled conditions during the last two years what is the supervisory committee's target date for completion of the verification program? Date _____
 c. If it is necessary to complete either 16a(1) or 16 b(1) , please describe the directors' plans for seeing that the target dates are met. (DISCUSS below or on an attached schedule.) Schedule No. _____

17. Surety Bond. List below the credit union's surety bond coverage.
 a. Name of carrier _____
 b. Standard form number of the bond (i.e. 23, 576, 577,578,581, 562 CU-1, other) _____
 c. Basic amount of coverage \$ _____
 d. Bond premium paid to (date) _____
 e. What is the amount of coverage required by State law or your bylaws? _____
 f. Riders to the bond (list below) (i.e., faithful performance, forgery, misplacement, etc.) _____

18. Credit Union Services
 Does the credit union render any services to or perform any functions on behalf of the members, non-members, organizations, or the public other than the usual savings and loan services for members? Yes (Complete a.) No (Stop)
 a. Attach a schedule describing each activity in full. Schedule No. _____ .

19. Does the credit union know of any adverse economic condition that is affecting or will affect its present or future operation or that of the sponsor organization? Yes (Complete a.) No (Stop)
 a. Attach a schedule describing the condition and its possible effect on the credit union's future. Schedule No. _____ .

20. To the best of the credit union's knowledge and belief, has any director, officer, committee member, or employee been convicted of any criminal offense involving dishonesty or breach of trust? Yes (Complete a.) No (Stop)
 a. Attach a statement describing the circumstances. Schedule No. _____ .

21. Lending policies and practices:
 a. Complete (on page 4) showing the present policies and practices on loans to members.
 b. Complete page 5 in accordance with the instructions pertaining to Item No. 21 b.

LENDING POLICIES AND PRACTICES

	Maximum Loan Amount	Maximum Period of Repayment	Required Amount of Downpayment (Equity)
1. Credit Union Policies and Practices			
a. Unsecured Loan Limits			
b. Secured Loan Limits			
(1) New Auto Collateral			
(2) Used Auto Collateral			
(3) Real Estate			
(a) First Mortgage			
(b) Second Mortgage			
(4) Comakers			
(5) Others (describe)			
c. Loans to Organizations			
d. Loans to Director, Officers, or Committee Members			
2. State Credit Union Law; Bylaws			
a. Unsecured Loan Limits			
b. Secured Loan Limits			
c. Loans to Directors, Officers, or Committee Members			

List below or on an attached page, any additional policies, including the interest rates applied to members' loans and the method of assessing and accounting for interest income, i.e.: add-on, discount or unpaid balance.

**CREDIT UNION SERVICE ORGANIZATION
(CUSO)**

1. Name of CUSO _____

2. Date of CUSO'S Organization _____
(Date of obtaining charter from State)

3. Type of organization (circle one):

- a. General Partnership
- b. Limited Partnership
- c. Joint Ownership
- d. Corporation

4. Owners of CUSO (list name, charter number if FCU, and percentage of ownership, if possible).

Name - Charter Number (if FCU)	%	Name - Charter Number (if FCU)	%
a. _____	_____	_____	_____
b. _____	_____	_____	_____

(Continue on reverse side if additional space is required)

5. Capitalization (list investors and amount of investment in CUSO).

Name - Charter Number (if FCU)	Amount	Name - Charter Number (if FCU)	Amount
a. _____	_____	_____	_____
b. _____	_____	_____	_____

(Continue on reverse side if additional space is required)

6. List all known services which are being offered by the CUSO (be as specific as possible),

7. Comments (include all other pertinent information, if applicable, not previously discussed).

8. Attach latest Financial and Statistical Report of CUSO, if available.

INSTRUCTIONS FOR COMPLETION OF APPLICATION OF A STATE CHARTERED CREDIT UNION FOR INSURANCE OF ACCOUNTS

The application and all supporting documents should be prepared, photocopied, and submitted in accordance with the procedures outlined in the letter that transmitted these instructions. Additional schedules may be included if deemed appropriate.

All items should be completed. If the answer given to a question is followed by the word "Stop," proceed to the next numbered question. If, however, the answer given is followed by instructions, the additional parts of that question should be completed before going on to the next question.

When page 1 specifies that a schedule should be prepared and attached, please assign a schedule number in consecutive order, starting with number one. Please show the schedule number at the top right-hand corner of the schedule.

Some of the items are self-explanatory and require no special instructions. Other items, however, need special explanations, definitions, and instructions for completion. These are listed below, identified by the same item numbers as appear in Exhibit A.

Item No. 5: Show whether the sponsor organization is associational, occupational or residential. If occupational, please show the specific products or services produced.

Item No. 10: Reserves: The term "reserve" in Exhibit A means that account, or accounts, which represents segregated portions of earnings as provided by the law, bylaws, and/or the credit union's management for the absorption of losses relating to loans to members. (These accounts are usually called Regular Reserve, Reserve for Bad Debts, Guarantee Reserve, Guarantee Fund, Special Reserve for Losses, and Allowance for Loan Losses.)

Item No. 11 a: The delinquent loan list requested should include, for each delinquent loan, the account number of the borrower, date of loan, original amount of loan, unpaid balance, date of last payment of principal, excluding transfers from pledged shares, collateral, and comments regarding the collectibility of each loan in the categories 6 months to less than 12 months and 12 months and over. Payments of interest only should be so identified.

For the purpose of this application, loan delinquency will be determined on the basis of the borrowers' payments in relation to the terms of the notes, as follows:

If a loan is in arrears by two monthly payments plus any part of the third payment, the loan is 2 months delinquent and, therefore, the entire unpaid balance is shown in the 2 months to less than 6 months category. A loan in arrears a total of 6 monthly payments plus any part of the seventh payment would be 6 months delinquent and the entire unpaid balance shown in the 6 months to less than 12 months category. A loan in arrears a total of 12 monthly payments plus any part of the thirteenth payment would be 12 months delin-

quent and the entire unpaid balance shown in the 12 months and over category.

Item No. 11 b: the schedule provided for the delinquent loan information is set up in delinquency categories of 2 months to less than 6 months, 6 months to less than 12 months, and 12 months and over. Credit unions that compute delinquency using categories other than shown in column (b) may use these other categories and show them in column (a). Credit unions using column (a) need not show the delinquencies in the column (b) categories. It is not necessary to report on loans which are delinquent less than 2 months.

Adverse Trends: If items 8, 9, or 11 indicate adverse trends such as significant decreases in shares, loans or reserves, increases in loan delinquency or loan charge-offs, or unresolved serious exceptions shown in the State examination report the credit union may attach an explanation and identify it as "Explanation of Adverse Trends or Unresolved Examination Exceptions" and assign it a schedule *number*.

Item No. 14: This item need be completed only if the credit union owns any of the following:

- A. Investments in U.S. Government securities guaranteed as to principal and interest or Federal Agency securities, the market value of which is now less than the book value.
- B. Real estate other than that used entirely for the credit union's own office(s).
- C. Other investments of any type except:
 - 1. Loans to other credit unions.
 - 2. Certificates of, or accounts in, federally insured savings and loan associations.
 - 3. Certificates of deposit in National or State banks.
 - 4. Deposits or accounts in State central credit unions.
 - 5. Common trust investments with International Credit Union Services Corporation (ICUS).

If corporate bonds are listed, please show maturity date, rate of interest on bonds and current yield rate.

If stocks are listed, please show number of shares and bid price.

Please identify the source of the market valuation information and the date of such information.

Item No. 21 b: The largest loans to members should be shown on page 5. In selecting the loans for this Exhibit, list the largest outstanding unpaid loan balance and proceed in descending order by dollar amount until the number specified

below has been shown. The number of such loans to be listed will be determined as follows:

<u>If your credit union has the following no. of outstanding loans</u>	<u>You should list the following no. of the largest unpaid balances</u>
Under 100	5
100 to 199	10
200 to 299	15
300 to 399	20
400 or more	25

If any of the above loans are delinquent, please show the number of months delinquent in the appropriate "Status of Repayment" column.

Page 6: Complete page 6 for each investment/loan to a Credit Union Service Organization (CUSO).

TERMINATION OF INSURANCE

Should the credit union, after obtaining insurance of member accounts, desire to terminate its insured status, this

could be accomplished by complying with the provisions of Section 206(a), (c) and (d) of Title II of the Federal Credit Union Act. This action would require approval by a vote of the majority of the members, and ninety days written notice of the proposed termination date to NCUA. Member accounts would continue to be insured for one year following termination of insurance and the insurance premium would be paid during that period. After termination of insurance, the credit union shall give prompt and reasonable notice to all members whose accounts are insured that it has ceased to be an insured credit union.

Sections 206(a)(2) and 206(d)(2) and (3) of the Act provide that an insured credit union may also terminate its insurance by converting from its status as an insured credit union under the Act to insurance from a corporation authorized and duly licensed to insure member accounts. In this event, approval is required by a majority of all the directors and by affirmative vote of a majority of the members voting, provided that at least 20 percent of the members have voted on the proposition. Under this provision for termination, insurance of member accounts would cease as of the date of termination.

**APPLICATION AND AGREEMENTS FOR INSURANCE OF ACCOUNTS
STATE CHARTERED CREDIT UNION**

Date _____

TO: The National Credit Union Administration Board

The _____ Credit Union,

Insurance Certificate Number _____ (if applicable)

(mailing address)

(city)

(state)

(zip code)

applies for insurance of its accounts as provided in Title II of the Federal Credit Union Act, and in consideration of the granting of insurance, hereby agrees:

1. To permit and pay the cost of such examinations as the NCUA Board deems necessary for the protection of the interests of the National Credit Union Share Insurance Fund;
2. To permit the Board to have access to all records and information concerning the affairs of the credit union, including any information or report related to an examination made by or for any other regulating authority, and to furnish such records, information, and reports upon request of the NCUA Board;
3. To possess such fidelity coverage and such coverage against burglary, robbery, and other losses as is required by Parts 701.20 and 741 of NCUA'S regulations;
4. To meet, at a minimum, the statutory reserve and full and fair disclosure requirements imposed on Federal credit unions by Section 116 of the Federal Credit Union Act and Parts 702 of NCUA'S regulations, and to maintain such special reserves as the NCUA Board may by regulation or on a case-by-case basis determine are necessary to protect the interests of members. Any waivers of the statutory reserve or full and fair disclosure requirements or any direct charges to the statutory reserve other than loss loans must have the prior written approval of the NCUA Board. In addition, corporate credit unions shall be subject to the reserve requirements specified in Part 704 of NCUA'S regulations;
5. Not to issue or have outstanding any account or security the form of which has not been approved by the NCUA Board, except accounts authorized by state law for state credit unions;
6. To maintain the deposit and pay the insurance premium charges imposed as a condition of insurance pursuant to Title II (Share Insurance) of the Federal Credit Union Act;
7. To comply with the requirements of Title II (Share insurance) of the Federal Credit Union Act and of regulations prescribed by the NCUA Board pursuant thereto; and
6. For any investments other than loans to members and obligations or securities expressly authorized in Title I of the Federal Credit Union Act, as amended to establish now and maintain at the end of each accounting period and prior to payment of any dividend, an Investment Valuation Reserve Account in an amount at least equal to the net excess of book value over current market value of the investments. If the market value cannot be determined, an amount equal to the full book value will be established. When, as of the end of any dividend period, the amount in the Investment Valuation Reserve exceeds the difference between book value and market value, the board of directors may authorize the transfer of the excess to Undivided Earnings.
9. When a state-chartered credit union is permitted by state law to accept nonmember shares or deposits from sources other than other credit unions and public units, such nonmember accounts shall be identified as nonmember shares or deposits on any statement or report required by the NCUA Board for insurance purposes. Immediately after a state-chartered credit union receives notice from NCUA that its member accounts are federally insured, the credit union will advise any present nonmember share and deposit holders by letter that their accounts are not insured by the National Credit Union Share Insurance. Also, future nonmember share and deposit fund holders will be so advised by letter as they open accounts.
10. In the event a state-chartered credit union chooses to terminate its status as a federally-insured credit union, then it shall meet the requirements imposed by Sections 206(a)(1) and 206(c) of the Federal Credit Union Act and Part 741.6 of NCUA'S regulations.
11. In the event a state-chartered credit union chooses to convert from federal insurance to some other insurance from a corporation authorized and duly licensed to insure member accounts, then it shall meet the requirements imposed by Sections 206(a)(2), 206(c), 206(d)(2), and 206(d)(3) of the Federal Credit Union Act.

Schedule No.

Title

CERTIFICATIONS AND RESOLUTIONS

We, the undersigned, certify that we are the duly elected and qualified presiding officer and recording officer of the credit union and that at a properly called regular or special meeting of its board of directors, at which a quorum was present, the following resolutions were passed and recorded in its minutes:

We, the undersigned, certify to the correctness of the information submitted.

Be it resolved that this credit union apply to the National Credit Union Administration Board for insurance of its accounts as provided in Title II of the Federal Credit Union Act.

Be it resolved that the presiding officer and recording officer be authorized and directed to execute the Application and Agreement for Insurance of Accounts as prescribed by the NCUA Board and any other papers and documents required in connection therewith and to pay all expenses and do all such other things necessary or proper to secure and continue in force such insurance.

We, further certify that to the best of our knowledge and belief no existing or proposed officer, committee member, or employee of this credit union has been convicted of any criminal offense involving dishonesty or breach of trust, except as noted in attachments to this application. We further agree to notify the Board if any existing, proposed or future officer, committee member or employee is indicted for such an offense.

(Signature) Presiding Officer, Board of Directors

(Print or type Presiding Officer's Name)

(Signature) Recording Officer, Board of Directors

(Print or type Recording Officer's Name)

NCUA-FM - APPENDIX E -- USE OF OUTSIDE AGENTS TO SOLICIT FIELD OF
MEMBERSHIP AMENDMENTS AND MEMBERS 7/94

PURPOSE

This appendix addresses the National Credit Union Administration's (NCUA) experience with credit unions and arrangements whereby agents outside the organization of the credit union solicit credit union membership in conjunction with the sale of products or services. This section also provides guidelines for these arrangements.

While these guidelines are not mandated by federal law or regulation, they do represent what the NCUA considers to be safe and sound policies and procedures to protect the credit union's assets. Since state laws vary, the guidance may not address every area. Thus, each credit union considering such ventures should obtain a written legal opinion from its counsel, as well as financial counseling from its normal sources.

BACKGROUND

As credit unions continue to grow and expand their fields of membership to select groups, there has been an increased interest by vendors in mutually beneficial relationships. These business dealings involve the vendor selling services or products and may also include the credit union's financing the sale of items. Generally, such arrangements operate as follows:

- The vendor contacts select group sponsors providing information on the credit union and the insurance or other product to be offered. Alternatively, credit unions may initiate relationships, typically with an automobile dealer, to finance autos. This is commonly called "indirect lending."
- The vendor assists the sponsor in requesting inclusion in the credit union's field of membership. With an indirect lending arrangement the vendor may have the purchaser prepare a membership application and promptly submits the application, usually by a fax, to the credit union.
- After the field of membership amendment is approved by NCUA or the state regulator, the vendor arranges to meet with employees. In the case of individual membership applications, approval or denial by the credit union's membership officer is required prior to consideration of lending activity. Under no circumstances may a credit union provide membership services conditioned upon subsequent action approving membership.
- The vendor represents the credit union to the employees and enrolls them into membership in accordance with appropriate laws, regulations, and bylaws.
- The vendor explains the products or services being marketed and enrolls the employee in a program or plan. In the case of insurance plans, policies are typically paid by periodic installments, and frequently in one lump sum.
- The vendor arranges for payroll deductions to the credit union. If the employee has an insurance policy or some other plan with periodic installments, generally, the credit union's deduction is increased and arrangements are made for the credit union to forward the appropriate amount to the vendor's company.

These arrangements have been beneficial to some credit unions and vendors. The credit union receives a service -- solicitation of members

-- free of charge. Membership increases and the credit union grows. The vendor has a marketing tool to complement its marketing program. Additionally, in the case of insurance vendors, if the credit union distributes the premiums or other payments directly to the vendor's company, the vendor's paperwork is greatly reduced.

SAFETY AND SOUNDNESS ISSUES

NCUA's experience in these arrangements has shown that potential risk to the credit union exists unless prior planning and internal controls are in place. NCUA has liquidated or taken administrative action in a number of credit unions in recent years when these controls were absent. Some unsafe and unsound practices are described below:

- The credit union did not investigate the vendor's or the vendor's company's reputation, financial soundness, or the authority to do business in the state where the credit union operated. In those cases where NCUA liquidated the credit unions, the companies or firms were of the fly-by-night variety, out to obtain quick profits in short periods of time. Dealing with well established and reputable firms is important if problems arise due to member complaints. Additionally, in the event of suits against the company or firm, adequate financial standing can often mitigate the credit union's losses.
- The credit union did not review the programs or products offered to "its" new members. In several instances, the policies were life insurance policies or annuity contracts which called for annual premiums (normally paid by installments) over long periods of time -- 20 to 30 years. While normal for such contracts, they generally called for limited reimbursement in the event of cancellation, for instance 20 percent reimbursement, if canceled before one year, 45 percent, two years, 55 percent, three years, etc. Many members who enrolled in these contracts did not understand the terms. When they subsequently canceled the policy and received only a 20 percent return, they held the credit union responsible. While the credit union had no legal obligation, it presented public relation problems which could have been avoided.
- The credit union was unfamiliar with the sales techniques used by the vendor to enroll members into the credit union and in the vendor's programs. In the liquidated credit unions mentioned above, unethical methods were used to sign unsophisticated members. It was not uncommon to have them just sign blank forms which included a membership card, payroll deduction authorization, insurance policy, and a loan application and the first year's premium or other payment.
- The credit union did not provide written instructions to the vendor on procedures to enroll members. Thus the vendor contacted groups which the credit union was ill-equipped to serve.
- The credit union authorized the vendor to approve loans en masse to cover first year fees or insurance premiums. NCUA considers this an unsafe and unsound practice which will result in appropriate administrative action. In several liquidated credit unions which had arrangements with insurance vendors employees were enrolled in the credit union, received a loan to pay the first year's premium and authorized payroll deductions.

The reason the insurance agency proceeded in this manner was to be reimbursed immediately by the carrier for new policies. Such reimbursement ranged from 85 to 105 percent of the first year's premium.

Thus an agency that enrolled just 100 new members for \$500 per year insurance contracts could have received \$42,500 to \$52,500 in fees. This desire to obtain reimbursement clouded the vendor's objectivity and resulted in members having unwanted policies, which they generally canceled. At a minimum, since the policyholder received only 20 percent return on the policy, the credit union had a public relations problem collecting its exposed 80 percent. At the worst, the credit union had a loss loan.

- The credit union failed to obtain proper payroll deduction authorizations and authority to remit fees or insurance premiums to the company. In several cases, payroll deduction for all members, even those who chose not to enroll in the vendor's program, were sent to the company first. The company then sent the unauthorized fee or premium deductions to the credit union. This procedure exposed the credit union to misappropriation of funds by the company, to a potential surety problem, and to an uninsured status until the funds were received in the credit union.
- In another case, a vendor contracted with a credit union to assist credit union members select, locate, and negotiate the purchase or lease of automobiles. Members paid a fee to the vendor during the closing transactions.

The vendor also provided marketing assistance to attract select employee groups into the credit union. The vendor was alleged to have falsified and concealed material facts and to have aided prospective credit union members in falsifying credit information to the credit union in attempts to obtain credit.

In some cases the prospective member obtained possession of the automobile prior to being accepted as a member and in other cases prior to being approved for the financing. Other operational issues that have led to abuses are the following:

- (1) The dealer directly accepting the borrower's payments.
- (2) The dealer making payments on behalf of the borrower potentially disguising past due accounts.
- (3) The borrower/purchaser applying for the title potentially resulting in an improperly recorded lien.
- (4) The dealer financing the down payment thus allowing the borrower to have no stake in the collateral.
- (5) The credit union permitting or initiating overdrafts in the vendor reserve or holdback accounts. (Sometimes the credit union requires deposits from the dealer to be held by the credit union to better assure good faith performance by the vendor.)
- (6) The credit union placing full reliance on the dealer for credit checks.
- (7) Financing indirect loans that are out of the credit union's normal trade area.
- (8) The dealer adds costs to the purchase price, such as insurance, warranties, and taxes, thus leaving the borrower with no equity in the car, and the lender with an undercollateralized loan.
- (9) Dealers generate a large volume of loans in an attempt to overwhelm credit union staff in hopes that the weaker loans will be approved. (There are instances where dealers resubmit previously denied loans during peak periods in attempts to get them approved.)

(10) The dealer inflates the purchase price or the trade in values, resulting in undercollateralized loans.

(11) An increased potential for making loans to persons who are not eligible to be credit union members exists because of dealer involvement.

(12) By allowing the dealer to negotiate the contract, including interest rates, there is a possibility of inequity among members.

In many instances, the prospective credit union member was pressured to solicit his employer for inclusion into the credit union's field of membership. In certain of these instances, the employer group had existing credit union affiliation with another credit union. In certain other instances, the vendor indicated the prospective member was affiliated with a legitimate group in the credit union's field of membership, when, in fact, the person was not employed by the group.

The vendor failed to properly complete required documentation for loans and lease agreements. In some cases the vendor indicated excessively high annual mileage limits in lease agreements.

RECOMMENDED INVESTIGATIVE PROCEDURES

Before entering into an agreement with a vendor acting as the credit union's agent in soliciting membership, a federally insured credit union should thoroughly investigate the impact of this action on its financial operations and condition; determine its legal liabilities; clearly define its moral responsibilities; and assure proper control of these activities. The following steps are recommended:

- Thoroughly investigate the financial condition of all corporations, partnerships or other entities involved in the activities. Obtain and review financial statements and credit reports, such as Dunn and Bradstreet, on each entity. Consider the need for appropriate bonding by each company.
- Review the organizational structure and reputation of each entity. Included in the review should be a certification that each entity is authorized to do business in the state where the credit union is authorized to do business.
- Review and approve the contracts or policies to be offered. Since members may hold the credit union morally responsible for problems which may occur, the officials should consider the impact of each contract or policy on its public relations with members.
- Determine through a written legal opinion that all forms, documents and procedures used by the credit union to obtain membership, payroll deductions or to transfer funds to a vendor are legal and protect the credit union.
- Ascertain the credit union's liability under the Holder in Due Course rule.
- Determine the type of recourse agreement (full recourse, limited recourse or without recourse) that the credit union will enter into with the vendor.
- Develop cash flow and budget projections showing the effect of increased membership on the credit union's financial condition and ability to serve new members.
- Track by individual vendor, loans, loan delinquency and loan losses for each financing derived from the indirect lending relationship.

- Develop procedures to monitor the activities of vendors as discussed below under Agreements.
- Develop brochures and handouts to be presented to potential members. Among these should be a disclaimer that the credit union does not endorse the products or services and that the vendor can make no commitments regarding membership approval or the granting of loans. Other materials to be presented are discretionary by the credit union.
- Obtain written confirmation from surety that such activities are bondable.
- Ensure the individual in charge of indirect lending is experienced with indirect financing or contacts another credit union with experience in this type of lending.

Start slow, utilizing only one or two reputable new car dealerships.

AGREEMENTS

All arrangements with a vendor should be in writing and reviewed by credit union legal counsel. Such agreements should include, but not be limited to, the following:

- Scope of the vendor's authority to contact sponsors, such as limits on sponsor's assets, number of employees/potential members, financial condition, organizational structure, geographical location, and sponsor stability in the area.
- Procedures for the vendor to follow in contacting sponsors. These should require the vendor to present any product or service as separate and distinct from credit union membership and to state that inclusion in the field of membership is subject to regulatory approval. There should be absolute indication that the credit union is not endorsing any products or services marketed by the vendor.
- Procedures for vendors to follow once a sponsor is included in the credit union's field of membership.
- Procedures for automobile dealers to follow when shopping sales contracts to lenders.
- Understanding and agreements on fees or points paid to automobile dealers.
- Agreement that products or services to be offered and materials, brochures and handouts to be presented by the vendor are to be approved, in advance, by the credit union.
- Agreement that all approved brochures and handouts of the credit union will be distributed.
- Agreement that credit union representatives may accompany the vendor on contacts with sponsors and on membership enrollments.
- Agreement that the credit union may disqualify any vendor or vendor's representative from representing the credit union. Generally such an agreement will include a preliminary approval process as well as monitoring standards to include necessary credit union training.
- Procedures for auditing indirect lending activities with the dealer.

- Any other standard contractual agreements necessary to contract law.

SUMMARY

Credit unions and vendors can engage in mutually beneficial contractual agreements provided that adequate planning and internal controls are instituted. Credit unions engaging in these activities should plan, direct, and control these activities in a safe and sound manner.

NCUA-FM - APPENDIX F -- TRADE ASSOCIATIONS 7/94

Credit Union National Association
(CUNA)
P.O. Box 431
Madison, WI 53701
608-231-4000

National Association of Federal Credit Unions
(NAFCU)
3138 N. 10th Street, Suite 300
Arlington, VA 22201
703-522-4770

National Association of State Credit Union
Supervisors (NASCUS)
1901 North Fort Myer Drive
Suite 201 Arlington, VA 22209
703-528-8351

National Federation of Community
Development Credit Unions
(NFCDCU)
120 Wall Street, 10th Floor
New York, NY 10005-3902
212-809-1850